



ESSENTIAL.

2021 QUARTERLY REVIEW **FIRST QUARTER**





North America's Railroad

CN First Quarter Results Demonstrate Continued Economic Recovery

***Record Intermodal Traffic and Shipments of Canadian Grain
Positioned to Drive Long-Term USMCA Growth as Economy Rebounds
CN Now Targeting Double-Digit Adjusted Diluted EPS Growth⁽¹⁾***

MONTREAL, April 26, 2021 — CN (TSX: CNR) (NYSE: CNI) today announced solid results in the first quarter of 2021, including an industry-leading increase in traffic volume of five per cent year-over-year. The Company updated its 2021 financial outlook and is now targeting double-digit adjusted diluted earnings per share growth⁽¹⁾.

"Industry-outpacing growth in our intermodal business, as well as our strong financial performance, position CN to be the premier railway of the 21st century: an engine of North American economic growth and prosperity and both an operational and sustainability leader. Gains in safety, train length, car velocity, labor productivity, fuel efficiency and other key measures demonstrate our strong operational performance. Our proposal to combine with Kansas City Southern (KCS) will drive value to KCS and CN shareholders and significantly enhance customer choice and competition, while further reducing greenhouse gas emissions by converting truck to rail. We have a high degree of confidence in our business, our offer to KCS and our vision for the future. We could not have achieved these results without the extraordinary talent and dedication of our great team of railroaders, who have our respect and appreciation, as always."

– JJ Ruest, President and Chief Executive Officer of CN

Financial results highlights

First-quarter 2021 compared to first-quarter 2020

- Operating income of C\$1,327 million, an increase of nine per cent, and adjusted operating income of C\$1,190 million, a decrease of two per cent. ⁽¹⁾
- Revenues of C\$3,535 million were in line with the prior year.
- Operating ratio of 62.5 per cent, an improvement of 3.2 points, and adjusted operating ratio of 66.3 per cent, an increase of 0.6 points. ⁽¹⁾
- Diluted earnings per share (EPS) of C\$1.37, a decrease of four per cent, and adjusted diluted EPS of C\$1.23, an increase of one per cent. ⁽¹⁾
- CN recovered C\$137 million, or C\$102 million after-tax (C\$0.14 per diluted share), of the C\$486 million loss on assets held for sale recorded in the second quarter of 2020, resulting from the Company entering into a definitive agreement for the sale of non-core lines in Wisconsin, Michigan and Ontario.

Operating Performance

First-quarter 2021 compared to first-quarter 2020

Operating performance improved in the first quarter of 2021 when compared to the same period in 2020, mainly due to the partial economic recovery and reduced impacts of the COVID-19 pandemic as well as the impacts of the illegal blockades in the first quarter of 2020.

- Federal Railroad Association (FRA) personal injury and accident rates decreased by 27 per cent and 36 per cent, respectively.
- Fuel efficiency improved by four percent to 0.92 US gallons of locomotive fuel consumed per 1,000 gross ton miles.
- Train length (in feet) increased by five per cent.
- Through dwell (entire railroad, hours) remained flat.
- Car velocity (car miles per day) increased by five per cent.
- Through network train speed (mph) decreased by one per cent.

Updated 2021 financial outlook ⁽²⁾

CN updated its 2021 financial outlook and is now targeting double-digit adjusted diluted EPS growth, versus 2020 adjusted diluted EPS of C\$5.31⁽¹⁾ (compared to its financial outlook of January 26, 2021, which called for adjusted diluted EPS growth in the high single-digit range). The Company now assumes high single-digit volume growth in 2021 in terms of revenue ton miles (RTMs). Furthermore, CN is still targeting free cash flow in the range of C\$3.0 billion to C\$3.3 billion in 2021 compared to C\$3.2 billion in 2020.

First-quarter 2021 revenues, traffic volumes and expenses

Revenues for the first quarter of 2021 of C\$3,535 million were in line with the prior year. Record first quarter intermodal traffic and shipments of Canadian grain, and freight rate increases were offset by lower volumes for other commodity groups caused mainly by the ongoing effects of the COVID-19 pandemic, the negative translation impact of a stronger Canadian dollar and lower applicable fuel surcharge rates. The unfavorable revenue impact of the polar vortex in February 2021 was similar in magnitude to the unfavorable revenue impact of the illegal blockades in February 2020.

RTMs, measuring the weight and distance of freight transported by CN, increased by five per cent from the year-earlier period. Freight revenue per RTM decreased by five per cent over the year-earlier period, mainly driven by the negative translation impact of a stronger Canadian dollar, lower applicable fuel surcharge rates and an increase in the average length of haul; partly offset by freight rate increases.

Operating expenses for the first quarter decreased by five per cent to C\$2,208 million, mainly due to a recovery of the loss on assets held for sale resulting from the Company entering into an agreement for the sale of non-core lines as well as the positive translation impact of a stronger Canadian dollar; partly offset by higher incentive compensation and higher fuel costs.

Proposed combination with KCS

On April 20, 2021, CN announced a superior proposal to combine with KCS (NYSE: KSU) in a transaction valued at US\$325 per KCS share, or approximately US\$33.7 billion⁽³⁾. On April 24, 2021, KCS' Board of Directors unanimously determined that CN's proposal could reasonably be expected to lead to a "Company Superior Proposal" as defined in KCS' existing merger agreement with Canadian Pacific Railway Limited ("CP"), allowing CN and KCS to engage in discussions with respect to CN's proposal.

Under the terms of CN's proposal, KCS shareholders will receive US\$200 in cash and 1.059 shares of CN common stock upon closing of the transaction into a voting trust. CN is proposing to use a voting trust structure identical to that proposed by CP. CN anticipates that the Surface Transportation Board will approve CN's proposed voting trust on the same timetable as CP's proposal.

A combination of CN and KCS will create a safer, faster, cleaner and stronger railway that is ideally positioned to support the growth of an emerging consumption-based economy through better service options and customer choice. Specifically, this combination will create an express route that connects the U.S., Mexico and Canada with a seamless single-owner, single-operator service, preserves access to all existing interchange options to enhance route choice and ensures robust price competition with new routes and a commitment to maintain open gateways to competitor networks. CN believes this combination will help make its customers' businesses better, speed the movement of goods from country to country and coast to coast, enhance competition, create jobs up and down the railroad and prevent millions of tons of greenhouse gases from entering the atmosphere by converting truck traffic to rail. Together, the combined company will offer an enhanced ability to connect ports in the Atlantic, Pacific and the Gulf of Mexico while also adding more fluid, rapid and cost-efficient options across network points such as Laredo, Texas; Detroit, Michigan; and Southern Ontario, Canada, for both new and existing customers. CN looks forward to engaging constructively with KCS' Board and all relevant stakeholders to deliver this superior transaction.

(1) Non-GAAP Measures

CN reports its financial results in accordance with United States generally accepted accounting principles (GAAP). CN also uses non-GAAP measures in this news release that do not have any standardized meaning prescribed by GAAP, such as adjusted performance measures. These non-GAAP measures may not be comparable to similar measures presented by other companies. For further details of these non-GAAP measures, including a reconciliation to the most directly comparable GAAP financial measures, refer to the attached supplementary schedule, Non-GAAP Measures.

CN's full-year adjusted diluted EPS outlook ⁽²⁾ excludes the expected impact of certain income and expense items. However, management cannot individually quantify on a forward-looking basis the impact of these items on its EPS because these items, which could be significant, are difficult to predict and may be highly variable. As a result, CN does not provide a corresponding GAAP measure for, or reconciliation to, its adjusted diluted EPS outlook.

(2) Forward-Looking Statements

Certain statements included in this news release constitute "forward-looking statements" within the meaning of the *United States Private Securities Litigation Reform Act of 1995* and under Canadian securities laws, including statements based on management's assessment and assumptions and publicly available information with respect to KCS, regarding the proposed transaction between CN and KCS, the expected benefits and synergies of the proposed transaction, future opportunities for the combined company and future shareholder returns. By their nature, forward-looking statements involve risks, uncertainties and assumptions. The Company cautions that its assumptions may not materialize and that current economic conditions render such assumptions, although reasonable at the time they were made, subject to greater uncertainty. Forward-looking statements may be identified by the use of terminology such as "believes," "expects," "anticipates," "assumes," "outlook," "plans," "targets" or other similar words.

Forward-looking statements are not guarantees of future performance and involve risks, uncertainties and other factors which may cause the actual results, performance or achievements of CN, or the combined company, to be materially different from the outlook or any future results, performance or achievements implied by such statements. Accordingly, readers are advised not to place undue reliance on forward-looking statements. Important risk factors that could affect the forward-looking statements in this news release include, but are not limited to: the outcome of any possible transaction between CN and KCS, including the possibility that a transaction will not be agreed to or that the terms of any definitive agreement will be materially different from those described; the parties' ability to consummate the proposed transaction; the conditions to the completion of the proposed transaction; that the regulatory approvals required for the proposed transaction may not be obtained on the terms expected or on the anticipated schedule or at all; CN's indebtedness, including the substantial indebtedness CN expects to incur and assume in connection with the proposed transaction and the need to generate sufficient cash flows to service and repay such debt; CN's ability to meet expectations regarding the timing, completion, accounting and tax treatments of the proposed transaction; the possibility that CN may be unable to achieve expected synergies and operating efficiencies within the expected time-frames or at all and to successfully integrate KCS' operations with those of CN; that such integration may be more difficult, time-consuming or costly than expected; that operating costs, customer loss and business disruption (including, without limitation, difficulties in maintaining relationships with employees, customers or suppliers) may be greater than expected following the proposed transaction or the public announcement of the proposed transaction; the retention of certain key employees of KCS may be difficult; the duration and effects of the COVID-19 pandemic, general economic and business conditions, particularly in the context of the COVID-19 pandemic; industry competition; inflation, currency and interest rate fluctuations; changes in fuel prices; legislative and/or regulatory developments; compliance with environmental laws and regulations; actions by regulators; the adverse impact of any termination or revocation by the Mexican government of KCS de México, S.A. de C.V.'s Concession; increases in maintenance and operating costs; security threats; reliance on technology and related cybersecurity risk; trade restrictions or other changes to international trade arrangements; transportation of hazardous materials; various events which could disrupt operations, including illegal blockades of rail networks and natural events such as severe weather, droughts, fires, floods and earthquakes; climate change; labor negotiations and disruptions; environmental claims; uncertainties of investigations, proceedings or other types of claims and litigation; risks and liabilities arising from derailments; timing and completion of capital programs; and other risks detailed from time to time in reports filed by CN with securities regulators in Canada and the United States. Reference should also be made to Management's Discussion and Analysis (MD&A) in CN's annual and interim reports, Annual Information Form and Form 40-F, filed with Canadian and U.S. securities regulators and available on CN's website, for a description of major risk factors relating to CN.

Forward-looking statements reflect information as of the date on which they are made. CN assumes no obligation to update or revise forward-looking statements to reflect future events, changes in circumstances, or changes in beliefs, unless required by applicable securities laws. In the event CN does update any forward-looking statement, no inference should be made that CN will make additional updates with respect to that statement, related matters, or any other forward-looking statement.

(3) Based on CN closing share price on the NYSE of US\$118.13 as of April 19, 2021.

2021 key assumptions

CN has made a number of economic and market assumptions in preparing its 2021 outlook. The Company now assumes that North American industrial production for the year will increase in the high single-digit range (compared to its January 26, 2021 assumption of an increase in the mid single-digit range), and assumes U.S. housing starts of approximately 1.45 million units and U.S. motor vehicle sales of approximately 16 million units. For the 2020/2021 crop year, the grain crop in Canada was above its three-year average and the U.S. grain crop was in line with its three-year average. The Company assumes that the 2021/2022 grain crops in both Canada and the U.S. will be in line with their respective three-year averages. CN now assumes total RTMs in 2021 will increase in the high single-digit range versus 2020 (compared to its January 26, 2021 assumption of an increase in the mid single-digit range). CN assumes continued pricing above rail inflation. CN assumes that in 2021, the value of the Canadian dollar in U.S. currency will be approximately \$0.80, and now assumes that in 2021 the average price of crude oil (West Texas Intermediate) will be approximately US\$60 per barrel (compared to its January 26, 2021 assumption of approximately US\$50 per barrel). In 2021, CN plans to invest approximately C\$3.0 billion in its capital program, of which C\$1.6 billion is targeted toward track and railway infrastructure maintenance.

No Offer or Solicitation

This news release does not constitute an offer to sell or the solicitation of an offer to buy any securities or a solicitation of any vote or approval, nor shall there be any sale of securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. No offer of securities shall be made except by means of a prospectus meeting the requirements of Section 10 of the Securities Act of 1933, as amended.

Additional Information and Where to Find It

This news release relates to a proposal which CN has made for an acquisition of KCS. In furtherance of this proposal and subject to future developments, CN (and, if a negotiated transaction is agreed, KCS) may file one or more registration statements, proxy statements, tender offer statements or other documents with the U.S. Securities and Exchange Commission ("SEC") or applicable securities regulators in Canada. This news release is not a substitute for any proxy statement, registration statement, tender offer statement, prospectus or other document CN and/or KCS may file with the SEC or applicable securities regulators in Canada in connection with the proposed transactions.

INVESTORS AND SECURITY HOLDERS ARE URGED TO READ THE PROXY STATEMENT(S), REGISTRATION STATEMENT(S), TENDER OFFER STATEMENT, PROSPECTUS AND ANY OTHER RELEVANT DOCUMENTS FILED WITH THE SEC OR APPLICABLE SECURITIES REGULATORS IN CANADA CAREFULLY IN THEIR ENTIRETY IF AND WHEN THEY BECOME AVAILABLE BECAUSE THEY WILL CONTAIN IMPORTANT INFORMATION ABOUT CN, KCS AND THE PROPOSED TRANSACTIONS. Any definitive proxy statement(s), registration statement or prospectus(es) and other documents filed by CN and KCS (if and when available) will be mailed to stockholders of CN and/or KCS, as applicable. Investors and security holders will be able to obtain copies of these documents (if and when available) and other documents filed with the SEC and applicable securities regulators in Canada by CN free of charge through at www.sec.gov and www.sedar.com. Copies of the documents filed by CN (if and when available) will also be made available free of charge by accessing CN's website at www.CN.ca.

Participants

This news release is neither a solicitation of a proxy nor a substitute for any proxy statement or other filings that may be made with the SEC and applicable securities regulators in Canada. Nonetheless, CN and its directors and executive officers and other members of management and employees may be deemed to be participants in the solicitation of proxies in respect of the proposed transactions. Information about CN's executive officers and directors is available in its 2021 Management Information Circular, dated March 9, 2021, as well as its 2020 Annual Report on Form 40-F filed with the SEC on February 1, 2021, in each case available on its website at www.CN.ca/investors/ and at www.sec.gov and www.sedar.com. Additional information regarding the interests of such potential participants will be included in one or more registration statements, proxy statements, tender offer statements or other documents filed with the SEC and applicable securities regulators in Canada if and when they become available. These documents (if and when available) may be obtained free of charge from the SEC's website at www.sec.gov and www.sedar.com, as applicable.

This earnings news release, as well as additional information, including the Financial Statements, Notes thereto and MD&A, is contained in CN's Quarterly Review available on the Company's website at www.cn.ca/financial-results and on SEDAR at www.sedar.com as well as on the U.S. Securities and Exchange Commission's website at www.sec.gov through EDGAR.

About CN

CN is a world-class transportation leader and trade-enabler. Essential to the economy, to the customers, and to the communities it serves, CN safely transports more than 300 million tons of natural resources, manufactured products, and finished goods throughout North America every year. As the only railroad connecting Canada's Eastern and Western coasts with the U.S. South through a 19,500-mile rail network, CN and its affiliates have been contributing to community prosperity and sustainable trade since 1919. CN is committed to programs supporting social responsibility and environmental stewardship.

- 30 -

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Selected Railroad Statistics – unaudited

	Three months ended March 31	
	2021	2020
Financial measures		
Key financial performance indicators ⁽¹⁾		
Total revenues (\$ millions)	3,535	3,545
Freight revenues (\$ millions)	3,423	3,424
Operating income (\$ millions)	1,327	1,215
Adjusted operating income (\$ millions) ⁽²⁾	1,190	1,215
Net income (\$ millions)	974	1,011
Adjusted net income (\$ millions) ⁽²⁾	872	870
Diluted earnings per share (\$)	1.37	1.42
Adjusted diluted earnings per share (\$) ⁽²⁾	1.23	1.22
Free cash flow (\$ millions) ⁽²⁾	539	573
Gross property additions (\$ millions)	412	603
Share repurchases (\$ millions)	291	379
Dividends per share (\$)	0.615	0.575
Financial position ⁽¹⁾		
Total assets (\$ millions)	44,964	46,435
Total liabilities (\$ millions)	25,073	27,601
Shareholders' equity (\$ millions)	19,891	18,834
Financial ratio		
Operating ratio (%)	62.5	65.7
Adjusted operating ratio (%) ⁽²⁾	66.3	65.7
Operational measures ⁽³⁾		
Statistical operating data		
Gross ton miles (GTMs) (millions)	120,780	113,979
Revenue ton miles (RTMs) (millions)	61,454	58,370
Carloads (thousands)	1,431	1,335
Route miles (includes Canada and the U.S.)	19,500	19,500
Employees (end of period)	24,577	23,975
Employees (average for the period)	24,508	25,264
Key operating measures		
Freight revenue per RTM (cents)	5.57	5.87
Freight revenue per carload (\$)	2,392	2,565
GTMs per average number of employees (thousands)	4,928	4,512
Operating expenses per GTM (cents)	1.83	2.04
Labor and fringe benefits expense per GTM (cents)	0.65	0.65
Diesel fuel consumed (US gallons in millions)	111.3	108.9
Average fuel price (\$ per US gallon)	2.89	2.90
Fuel efficiency (US gallons of locomotive fuel consumed per 1,000 GTMs)	0.92	0.96
Train weight (tons)	9,421	9,134
Train length (feet)	8,340	7,977
Car velocity (car miles per day)	187	178
Through dwell (entire railroad, hours)	8.3	8.3
Through network train speed (miles per hour)	18.1	18.2
Locomotive utilization (trailing GTMs per total horsepower)	198	183
Safety indicators ⁽⁴⁾		
Injury frequency rate (per 200,000 person hours)	1.65	2.25
Accident rate (per million train miles)	1.15	1.81

(1) Amounts expressed in Canadian dollars and prepared in accordance with United States generally accepted accounting principles (GAAP), unless otherwise noted.

(2) See supplementary schedule entitled Non-GAAP Measures for an explanation of these non-GAAP measures.

(3) Statistical operating data, key operating measures and safety indicators are unaudited and based on estimated data available at such time and are subject to change as more complete information becomes available. Definitions of gross ton miles, fuel efficiency, train weight, train length, car velocity, through dwell and through network train speed are included within the Company's Management's Discussion and Analysis. Definitions of all other indicators are provided on CN's website, www.cn.ca/glossary.

(4) Based on Federal Railroad Administration (FRA) reporting criteria.

Supplementary Information – unaudited

	Three months ended March 31			
	2021	2020	% Change Fav (Unfav)	% Change at constant currency Fav (Unfav) ⁽¹⁾
Revenues (\$ millions) ⁽²⁾				
Petroleum and chemicals	661	791	(16%)	(13%)
Metals and minerals	368	405	(9%)	(5%)
Forest products	429	433	(1%)	3%
Coal	126	143	(12%)	(10%)
Grain and fertilizers	713	610	17%	20%
Intermodal	968	849	14%	16%
Automotive	158	193	(18%)	(14%)
<i>Total freight revenues</i>	3,423	3,424	—%	3%
Other revenues	112	121	(7%)	(4%)
<i>Total revenues</i>	3,535	3,545	—%	3%
Revenue ton miles (RTMs) (millions) ⁽³⁾				
Petroleum and chemicals	10,732	13,688	(22%)	(22%)
Metals and minerals	6,293	6,476	(3%)	(3%)
Forest products	6,670	6,322	6%	6%
Coal	4,026	4,078	(1%)	(1%)
Grain and fertilizers	17,841	14,199	26%	26%
Intermodal	15,233	12,762	19%	19%
Automotive	659	845	(22%)	(22%)
<i>Total RTMs</i>	61,454	58,370	5%	5%
Freight revenue / RTM (cents) ^{(2) (3)}				
Petroleum and chemicals	6.16	5.78	7%	11%
Metals and minerals	5.85	6.25	(6%)	(2%)
Forest products	6.43	6.85	(6%)	(2%)
Coal	3.13	3.51	(11%)	(9%)
Grain and fertilizers	4.00	4.30	(7%)	(5%)
Intermodal	6.35	6.65	(5%)	(3%)
Automotive	23.98	22.84	5%	10%
<i>Total freight revenue / RTM</i>	5.57	5.87	(5%)	(2%)
Carloads (thousands) ⁽³⁾				
Petroleum and chemicals	150	173	(13%)	(13%)
Metals and minerals	223	241	(7%)	(7%)
Forest products	86	88	(2%)	(2%)
Coal	69	77	(10%)	(10%)
Grain and fertilizers	176	150	17%	17%
Intermodal	676	548	23%	23%
Automotive	51	58	(12%)	(12%)
<i>Total carloads</i>	1,431	1,335	7%	7%
Freight revenue / carload (\$) ^{(2) (3)}				
Petroleum and chemicals	4,407	4,572	(4%)	—%
Metals and minerals	1,650	1,680	(2%)	3%
Forest products	4,988	4,920	1%	6%
Coal	1,826	1,857	(2%)	1%
Grain and fertilizers	4,051	4,067	—%	2%
Intermodal	1,432	1,549	(8%)	(6%)
Automotive	3,098	3,328	(7%)	(2%)
<i>Total freight revenue / carload</i>	2,392	2,565	(7%)	(4%)

(1) See supplementary schedule entitled Non-GAAP Measures for an explanation of this non-GAAP measure.

(2) Amounts expressed in Canadian dollars.

(3) Statistical operating data and related key operating measures are unaudited and based on estimated data available at such time and are subject to change as more complete information becomes available.

Non-GAAP Measures – unaudited

In this supplementary schedule, the "Company" or "CN" refers to Canadian National Railway Company, together with its wholly-owned subsidiaries. Financial information included in this schedule is expressed in Canadian dollars, unless otherwise noted.

CN reports its financial results in accordance with United States generally accepted accounting principles (GAAP). The Company also uses non-GAAP measures that do not have any standardized meaning prescribed by GAAP, including adjusted performance measures, constant currency, free cash flow and adjusted debt-to-adjusted earnings before interest, income taxes, depreciation and amortization (EBITDA) multiple. These non-GAAP measures may not be comparable to similar measures presented by other companies. From management's perspective, these non-GAAP measures are useful measures of performance and provide investors with supplementary information to assess the Company's results of operations and liquidity. These non-GAAP measures should not be considered in isolation or as a substitute for financial measures prepared in accordance with GAAP.

Adjusted performance measures

Management believes that adjusted net income, adjusted earnings per share, adjusted operating income and adjusted operating ratio are useful measures of performance that can facilitate period-to-period comparisons, as they exclude items that do not necessarily arise as part of CN's normal day-to-day operations and could distort the analysis of trends in business performance. Management uses adjusted performance measures, which exclude certain income and expense items in its results that management believes are not reflective of CN's underlying business operations, to set performance goals and as a means to measure CN's performance. The exclusion of such income and expense items in these measures does not, however, imply that these items are necessarily non-recurring. These measures do not have any standardized meaning prescribed by GAAP and therefore, may not be comparable to similar measures presented by other companies.

For the three months ended March 31, 2021, the Company's adjusted net income was \$872 million, or \$1.23 per diluted share, which excludes \$137 million, or \$102 million after-tax (\$0.14 per diluted share), resulting from the recovery of the loss on assets held for sale recorded in the second quarter of 2020, to reflect an agreement for the sale of certain non-core rail lines to a short line operator.

For the three months ended March 31, 2020, the Company's adjusted net income was \$870 million, or \$1.22 per diluted share, which excludes a current income tax recovery of \$141 million (\$0.20 per diluted share) resulting from the enactment of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, a U.S. tax-and-spending package aimed at providing additional stimulus to address the economic impact of the COVID-19 pandemic.

The following table provides a reconciliation of net income and earnings per share in accordance with GAAP, as reported for the three months ended March 31, 2021 and 2020, to the non-GAAP adjusted performance measures presented herein:

<i>In millions, except per share data</i>	Three months ended March 31	
	2021	2020
Net income	\$ 974	\$ 1,011
<i>Adjustments:</i>		
Recovery of loss on assets held for sale	(137)	–
Income tax expense (recovery) ⁽¹⁾	35	(141)
Adjusted net income	\$ 872	\$ 870
Basic earnings per share	\$ 1.37	\$ 1.42
<i>Impact of adjustments, per share</i>	(0.14)	(0.20)
Adjusted basic earnings per share	\$ 1.23	\$ 1.22
Diluted earnings per share	\$ 1.37	\$ 1.42
<i>Impact of adjustments, per share</i>	(0.14)	(0.20)
Adjusted diluted earnings per share	\$ 1.23	\$ 1.22

(1) Includes the tax impact of: (i) adjustments based on the nature of the item for tax purposes and related tax rates in the applicable jurisdiction; or (ii) tax law changes and rate enactments.

Non-GAAP Measures – unaudited

The following table provides a reconciliation of operating income and operating ratio in accordance with GAAP, as reported for the three months ended March 31, 2021 and 2020, to the non-GAAP adjusted performance measures presented herein:

<i>In millions, except percentage</i>	Three months ended March 31	
	2021	2020
Operating income	\$ 1,327	\$ 1,215
<i>Adjustment: Recovery of loss on assets held for sale</i>	(137)	–
<i>Adjusted operating income</i>	\$ 1,190	\$ 1,215
Operating ratio ⁽¹⁾	62.5%	65.7%
<i>Impact of adjustment</i>	3.8-pts	–
<i>Adjusted operating ratio</i>	66.3%	65.7%

(1) The operating ratio is defined as operating expenses as a percentage of revenues.

Constant currency

Financial results at constant currency allow 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. Measures at constant currency are considered non-GAAP measures and do not have any standardized meaning prescribed by GAAP and therefore, may not be comparable to similar measures presented by other companies. Financial results at constant currency are obtained by translating the current period results denominated in US dollars at the foreign exchange rates of the comparable period in the prior year. The average foreign exchange rates were \$1.27 and \$1.34 per US\$1.00 for the three months ended March 31, 2021 and 2020, respectively.

On a constant currency basis, the Company's net income for the three months ended March 31, 2021 would have been higher by \$33 million (\$0.05 per diluted share).

Free cash flow

Management believes that free cash flow is a useful measure of liquidity as it demonstrates the Company's ability to generate cash for debt obligations and for discretionary uses such as payment of dividends, share repurchases, and strategic opportunities. The Company defines its free cash flow measure as the difference between net cash provided by operating activities and net cash used in investing activities, adjusted for the impact of business acquisitions, if any. Free cash flow does not have any standardized meaning prescribed by GAAP and therefore, may not be comparable to similar measures presented by other companies.

The following table provides a reconciliation of net cash provided by operating activities in accordance with GAAP, as reported for the three months ended March 31, 2021 and 2020, to the non-GAAP free cash flow presented herein:

<i>In millions</i>	Three months ended March 31	
	2021	2020
Net cash provided by operating activities	\$ 952	\$ 1,180
Net cash used in investing activities	(413)	(607)
<i>Free cash flow</i>	\$ 539	\$ 573

Non-GAAP Measures – unaudited

Adjusted debt-to-adjusted EBITDA multiple

Management believes that the adjusted debt-to-adjusted EBITDA multiple is a useful credit measure because it reflects the Company's ability to service its debt and other long-term obligations. The Company calculates the adjusted debt-to-adjusted EBITDA multiple as adjusted debt divided by adjusted EBITDA. These measures do not have any standardized meaning prescribed by GAAP and therefore, may not be comparable to similar measures presented by other companies.

The following table provides a reconciliation of debt and net income in accordance with GAAP, reported as at and for the twelve months ended March 31, 2021 and 2020, to the adjusted measures presented herein, which have been used to calculate the non-GAAP adjusted debt-to-adjusted EBITDA multiple:

<i>In millions, unless otherwise indicated</i>	<i>As at and for the twelve months ended March 31,</i>		2021	2020
Debt		\$	12,928	\$ 15,287
<i>Adjustments:</i>				
Operating lease liabilities, including current portion			387	493
Pension plans in deficiency			548	527
<i>Adjusted debt</i>		\$	13,863	\$ 16,307
Net income		\$	3,525	\$ 4,441
Interest expense			545	546
Income tax expense			1,145	1,122
Depreciation and amortization			1,601	1,514
<i>EBITDA</i>			6,816	7,623
<i>Adjustments:</i>				
Loss on assets held for sale			349	–
Other loss (income)			7	(62)
Other components of net periodic benefit income			(333)	(319)
Operating lease cost			138	166
<i>Adjusted EBITDA</i>		\$	6,977	\$ 7,408
<i>Adjusted debt-to-adjusted EBITDA multiple (times)</i>			1.99	2.20

Consolidated Statements of Income – unaudited

<i>In millions, except per share data</i>	Three months ended March 31	
	2021	2020
Revenues (Note 3)	\$ 3,535	\$ 3,545
Operating expenses		
Labor and fringe benefits	785	743
Purchased services and material	549	578
Fuel	364	360
Depreciation and amortization	404	392
Equipment rents	89	105
Casualty and other	154	152
Recovery of loss on assets held for sale (Note 4)	(137)	—
<i>Total operating expenses</i>	2,208	2,330
<i>Operating income</i>	1,327	1,215
Interest expense	(130)	(139)
Other components of net periodic benefit income (Note 5)	96	78
Other income (loss)	(2)	11
<i>Income before income taxes</i>	1,291	1,165
Income tax expense (Note 6)	(317)	(154)
Net income	\$ 974	\$ 1,011
Earnings per share (Note 7)		
Basic	\$ 1.37	\$ 1.42
Diluted	\$ 1.37	\$ 1.42
Weighted-average number of shares (Note 7)		
Basic	711.0	712.3
Diluted	712.8	713.9
Dividends declared per share	\$ 0.615	\$ 0.575

See accompanying notes to unaudited consolidated financial statements.

Consolidated Statements of Comprehensive Income – unaudited

<i>In millions</i>	Three months ended March 31	
	2021	2020
Net income	\$ 974	\$ 1,011
Other comprehensive income (Note 12)		
Net gain (loss) on foreign currency translation	(57)	452
Net change in pension and other postretirement benefit plans (Note 5)	72	62
<i>Other comprehensive income before income taxes</i>	15	514
Income tax recovery (expense)	(33)	68
<i>Other comprehensive income (loss)</i>	(18)	582
Comprehensive income	\$ 956	\$ 1,593

See accompanying notes to unaudited consolidated financial statements.

Consolidated Balance Sheets – unaudited

<i>In millions</i>	March 31 2021	December 31 2020
Assets		
Current assets		
Cash and cash equivalents	\$ 518	\$ 569
Restricted cash and cash equivalents (Note 8)	529	531
Accounts receivable	1,177	1,054
Material and supplies	633	583
Other current assets (Note 9)	517	365
<i>Total current assets</i>	3,374	3,102
Properties	39,816	40,069
Operating lease right-of-use assets (Note 10)	403	435
Pension asset	955	777
Intangible assets, goodwill and other	416	421
Total assets	\$ 44,964	\$ 44,804
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable and other	\$ 2,162	\$ 2,364
Current portion of long-term debt	676	910
<i>Total current liabilities</i>	2,838	3,274
Deferred income taxes	8,406	8,271
Other liabilities and deferred credits	529	534
Pension and other postretirement benefits	759	767
Long-term debt	12,252	11,996
Operating lease liabilities (Note 10)	289	311
Shareholders' equity		
Common shares	3,710	3,698
Common shares in Share Trusts (Note 8)	(96)	(115)
Additional paid-in capital	368	379
Accumulated other comprehensive loss (Note 12)	(3,490)	(3,472)
Retained earnings	19,399	19,161
<i>Total shareholders' equity</i>	19,891	19,651
Total liabilities and shareholders' equity	\$ 44,964	\$ 44,804

See accompanying notes to unaudited consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity – unaudited

<i>In millions</i>	Number of common shares		Common shares	Common shares in Share Trusts	Additional paid-in capital	Accumulated other comprehensive loss	Retained earnings	Total shareholders' equity
	Outstanding	Share Trusts						
<i>Balance at December 31, 2020</i>	710.3	1.3	\$ 3,698	\$ (115)	\$ 379	\$ (3,472)	\$ 19,161	\$ 19,651
Net income							974	974
Stock options exercised	0.2		23		(3)			20
Settlement of equity settled awards	0.3	(0.3)		26	(33)		(20)	(27)
Stock-based compensation expense and other					25			25
Repurchase of common shares (Note 8)	(2.1)		(11)				(280)	(291)
Share purchases by Share Trusts	–	–		(7)				(7)
Other comprehensive loss (Note 12)						(18)		(18)
Dividends							(436)	(436)
<i>Balance at March 31, 2021</i>	708.7	1.0	\$ 3,710	\$ (96)	\$ 368	\$ (3,490)	\$ 19,399	\$ 19,891

<i>In millions</i>	Number of common shares		Common shares	Common shares in Share Trusts	Additional paid-in capital	Accumulated other comprehensive loss	Retained earnings	Total shareholders' equity
	Outstanding	Share Trusts						
<i>Balance at December 31, 2019</i>	712.3	1.8	\$ 3,650	\$ (163)	\$ 403	\$ (3,483)	\$ 17,634	\$ 18,041
Net income							1,011	1,011
Stock options exercised	0.3		25		(3)			22
Settlement of equity settled awards	0.5	(0.5)		43	(54)		(34)	(45)
Stock-based compensation expense and other					17		–	17
Repurchase of common shares (Note 8)	(3.3)		(17)				(362)	(379)
Share purchases by Share Trusts	–	–		(6)				(6)
Other comprehensive income (Note 12)						582		582
Dividends							(409)	(409)
<i>Balance at March 31, 2020</i>	709.8	1.3	\$ 3,658	\$ (126)	\$ 363	\$ (2,901)	\$ 17,840	\$ 18,834

See accompanying notes to unaudited consolidated financial statements.

Consolidated Statements of Cash Flows – unaudited

<i>In millions</i>	Three months ended March 31	
	2021	2020
Operating activities		
Net income	\$ 974	\$ 1,011
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	404	392
Pension income and funding	(109)	(92)
Deferred income taxes	151	294
Recovery of loss on assets held for sale (Note 4)	(137)	—
Changes in operating assets and liabilities:		
Accounts receivable	(129)	(1)
Material and supplies	(49)	(52)
Accounts payable and other	(212)	(406)
Other current assets	1	7
Other operating activities, net	58	27
<i>Net cash provided by operating activities</i>	952	1,180
Investing activities		
Property additions	(412)	(603)
Other investing activities, net	(1)	(4)
<i>Net cash used in investing activities</i>	(413)	(607)
Financing activities		
Issuance of debt (Note 8)	389	947
Repayment of debt	(258)	(606)
Change in commercial paper, net (Note 8)	13	304
Settlement of foreign exchange forward contracts on debt	(9)	21
Issuance of common shares for stock options exercised	20	22
Withholding taxes remitted on the net settlement of equity settled awards (Note 11)	(27)	(43)
Repurchase of common shares (Note 8)	(277)	(379)
Purchase of common shares for settlement of equity settled awards	—	(2)
Purchase of common shares by Share Trusts	(7)	(6)
Dividends paid	(436)	(409)
<i>Net cash used in financing activities</i>	(592)	(151)
Effect of foreign exchange fluctuations on cash, cash equivalents, restricted cash and restricted cash equivalents	—	3
<i>Net increase (decrease) in cash, cash equivalents, restricted cash, and restricted cash equivalents</i>	(53)	425
Cash, cash equivalents, restricted cash, and restricted cash equivalents, beginning of period	1,100	588
<i>Cash, cash equivalents, restricted cash, and restricted cash equivalents, end of period</i>	\$ 1,047	\$ 1,013
Cash and cash equivalents, end of period	\$ 518	\$ 488
Restricted cash and cash equivalents, end of period	529	525
<i>Cash, cash equivalents, restricted cash, and restricted cash equivalents, end of period</i>	\$ 1,047	\$ 1,013
Supplemental cash flow information		
Interest paid	\$ (174)	\$ (183)
Income taxes refunded (paid)	\$ (188)	\$ 9

See accompanying notes to unaudited consolidated financial statements.

Notes to Unaudited Consolidated Financial Statements

1 – Basis of presentation

In these notes, the "Company" or "CN" refers to Canadian National Railway Company, together with its wholly-owned subsidiaries.

The accompanying unaudited Interim Consolidated Financial Statements, expressed in Canadian dollars, have been prepared in accordance with United States generally accepted accounting principles (GAAP) for interim financial statements. Accordingly, they do not include all of the disclosures required by GAAP for complete financial statements. In management's opinion, all adjustments (consisting of normal recurring accruals) considered necessary for fair presentation have been included. Interim operating results are not necessarily indicative of the results that may be expected for the full year.

These unaudited Interim Consolidated Financial Statements have been prepared using accounting policies consistent with those used in preparing CN's 2020 Annual Consolidated Financial Statements and should be read in conjunction with such statements and Notes thereto.

2 – Recent accounting pronouncements

The following recent Accounting Standards Update (ASU) issued by the Financial Accounting Standards Board (FASB) came into effect in 2020, was amended in 2021 and has not been adopted by the Company:

ASU 2020-04 Reference rate reform (Topic 848): Facilitation of the effects of reference rate reform on financial reporting and related amendments

London Interbank Offered Rate (LIBOR) is a benchmark interest rate referenced in a variety of agreements that are used by all types of entities. At the end of 2021, banks will no longer be required to report information that is used to determine LIBOR. As a result, LIBOR could be discontinued. Other interest rates used globally could also be discontinued for similar reasons.

The ASU provides optional expedients and exceptions for applying generally accepted accounting principles to transactions affected by reference rate reform if certain criteria are met. These transactions include contract modifications, hedging relationships, and sale or transfer of debt securities classified as held-to-maturity.

The ASU was effective starting on March 12, 2020, and is available to be adopted on a prospective basis no later than December 31, 2022, when the reference rate replacement activity is expected to be completed. The Company currently has outstanding loans and finance lease obligations referencing LIBOR totaling approximately US\$630 million that would be affected by the provisions of this ASU. The Company is evaluating the effects that the adoption of the ASU will have on its Consolidated Financial Statements and related disclosures, and whether it will elect to apply any of the optional expedients and exceptions provided in the ASU.

Other recently issued ASUs required to be applied for periods beginning on or after March 31, 2021 have been evaluated by the Company and are not expected to have a significant impact on the Company's Consolidated Financial Statements.

Notes to Unaudited Consolidated Financial Statements

3 – Revenues

The following table provides disaggregated information for revenues for the three months ended March 31, 2021 and 2020:

<i>In millions</i>	Three months ended March 31	
	2021	2020
Freight revenues		
Petroleum and chemicals	\$ 661	\$ 791
Metals and minerals	368	405
Forest products	429	433
Coal	126	143
Grain and fertilizers	713	610
Intermodal	968	849
Automotive	158	193
<i>Total freight revenues</i>	3,423	3,424
Other revenues	112	121
<i>Total revenues</i> ⁽¹⁾	\$ 3,535	\$ 3,545
Revenues by geographic area		
Canada	\$ 2,485	\$ 2,438
United States (U.S.)	1,050	1,107
<i>Total revenues</i> ⁽¹⁾	\$ 3,535	\$ 3,545

(1) As at March 31, 2021, the Company had remaining performance obligations related to freight in-transit, for which revenues of \$96 million (\$91 million as at March 31, 2020) are expected to be recognized in the next period.

Contract liabilities

Contract liabilities represent consideration received from customers for which the related performance obligation has not been satisfied. Contract liabilities are recognized into revenues when or as the related performance obligation is satisfied. The Company includes contract liabilities within Accounts payable and other and Other liabilities and deferred credits on the Consolidated Balance Sheets.

The following table provides a reconciliation of the beginning and ending balances of contract liabilities for the three months ended March 31, 2021 and 2020:

<i>In millions</i>	Three months ended March 31	
	2021	2020
Beginning balance	\$ 200	\$ 211
Revenue recognized included in the beginning balance	(29)	(6)
Increase due to consideration received, net of revenue recognized	1	1
<i>Ending balance</i>	\$ 172	\$ 206
Current portion - End of period	\$ 99	\$ 38

Notes to Unaudited Consolidated Financial Statements

4 – Assets held for sale

In the second quarter of 2020, the Company committed to a plan and began to actively market for sale for on-going rail operations, certain non-core lines in Wisconsin, Michigan and Ontario ("non-core lines") representing approximately 850 miles and had met the criteria for classification of the related assets as assets held for sale. Accordingly, a \$486 million loss (\$363 million after-tax) was recorded to adjust the carrying amount of these track and roadway assets to their then estimated net selling price. The carrying amount of assets held for sale was included in Other current assets in the Consolidated Balance Sheets. See *Note 9 - Other current assets*.

On March 30, 2021, CN entered into an agreement with a short line operator, for the sale of the non-core lines plus an additional 50 miles of track and roadway assets not originally included within assets held for sale, subject to various conditions including regulatory authorization by the Surface Transportation Board (STB). As at March 31, 2021, the carrying amount of assets held for sale was adjusted to \$260 million (\$90 million as at December 31, 2020), to reflect the contractual selling price net of estimated transaction costs and the additional track and roadway assets included as part of the agreement. The increase of \$170 million during the quarter includes a \$137 million recovery of the loss (\$102 million after-tax) on the non-core lines and \$33 million for the additional track and roadway assets.

As at March 31, 2021, the criteria for the classification of assets held for sale continued to be met.

5 – Pensions and other postretirement benefits

The Company has various retirement benefit plans under which substantially all of its employees are entitled to benefits at retirement age, generally based on compensation and length of service and/or contributions. Additional information relating to the retirement benefit plans is provided in *Note 17 – Pensions and other postretirement benefits* to the Company's 2020 Annual Consolidated Financial Statements.

The following table provides the components of net periodic benefit cost (income) for defined benefit pension and other postretirement benefit plans for the three months ended March 31, 2021 and 2020:

<i>In millions</i>	Three months ended March 31			
	Pensions		Other postretirement benefits	
	2021	2020	2021	2020
Current service cost	\$ 54	\$ 48	\$ 1	\$ 1
Other components of net periodic benefit cost (income)				
Interest cost	93	133	1	1
Expected return on plan assets	(262)	(274)	–	–
Amortization of prior service cost	–	1	–	–
Amortization of net actuarial loss (gain)	73	62	(1)	(1)
<i>Total Other components of net periodic benefit cost (income)</i>	(96)	(78)	–	–
<i>Net periodic benefit cost (income)</i>	\$ (42)	\$ (30)	\$ 1	\$ 1

Pension contributions

Pension contributions for the three months ended March 31, 2021 and 2020 of \$73 million and \$68 million, respectively, primarily represent contributions to the Company's main pension plan, the CN Pension Plan, for the current service cost as determined under the Company's applicable actuarial valuations for funding purposes. In 2021, the Company now expects to make total cash contributions of approximately \$140 million for all of the Company's pension plans.

Notes to Unaudited Consolidated Financial Statements

6 – Income taxes

Income tax expense was \$317 million for the three months ended March 31, 2021, compared to \$154 million for the same period in 2020. Income tax expense for the three months ended March 31, 2020 included a current income tax recovery of \$141 million resulting from the enactment of the *Coronavirus Aid, Relief, and Economic Security (CARES) Act*.

On March 27, 2020, the U.S. government enacted the CARES Act, a tax-and-spending package aimed at providing additional stimulus to address the economic impact of the COVID-19 pandemic. The CARES Act corporate income tax measures allow for U.S. federal net operating losses (NOLs) arising in tax years 2018, 2019, and 2020 to be fully carried back to each of the five tax years preceding the tax year of the NOL. As a result of the CARES Act, the Company reclassified its 2019 deferred income tax asset of \$213 million on the NOL that arose in 2019, to a current income tax receivable and recorded a current income tax recovery of \$141 million in 2020 to reflect an amount recoverable at the higher U.S. federal corporate income tax rate of 35% applicable to pre-2018 tax years.

7 – Earnings per share

The following table provides a reconciliation between basic and diluted earnings per share as at March 31, 2021 and 2020:

<i>In millions, except per share data</i>	Three months ended March 31	
	2021	2020
Net income	\$ 974	\$ 1,011
Weighted-average basic shares outstanding	711.0	712.3
Dilutive effect of stock-based compensation	1.8	1.6
<i>Weighted-average diluted shares outstanding</i>	<i>712.8</i>	<i>713.9</i>
Basic earnings per share	\$ 1.37	\$ 1.42
Diluted earnings per share	\$ 1.37	\$ 1.42
Units excluded from the calculation as their inclusion would not have a dilutive effect		
Stock options	0.7	1.2
Performance share units	0.1	0.3

8 – Financing activities

Shelf prospectus and registration statement

Under its current shelf prospectus with Canadian securities regulators and registration statement with the United States Securities and Exchange Commission (SEC), the Company may issue up to \$6.0 billion of debt securities in the Canadian and U.S. capital markets over the 25 months from the filing date, February 11, 2020.

As at March 31, 2021, the remaining capacity of this shelf prospectus and registration statement was \$5.2 billion. Access to the Canadian and U.S. capital markets under the shelf prospectus and registration statement is dependent on market conditions.

Notes and debentures

For the three months ended March 31, 2021, the Company repaid the following:

- On January 18, 2021, early redemption of \$250 million 2.75% Notes due 2021.

For the three months ended March 31, 2020, the Company repaid the following:

- On February 3, 2020, repayment of US\$300 million (\$397 million) 2.40% Notes due 2020 upon maturity.

Revolving credit facilities

The Company has an unsecured revolving credit facility with a consortium of lenders which is available for general corporate purposes including backstopping the Company's commercial paper programs. On March 31, 2021, the Company's revolving credit facility agreement was amended, to extend the term of the credit facility by approximately two years and to adopt a sustainability linked loan structure whereby its applicable margins are adjusted upon achievement of certain sustainability targets, starting in 2022. The amended credit facility of \$2.0 billion consists of a \$1.0 billion tranche maturing on March 31, 2024 and a \$1.0 billion tranche maturing on March 31, 2026. Subject to the consent of

Notes to Unaudited Consolidated Financial Statements

the individual lenders, the Company has the option to increase the facility by an additional \$500 million during its term and to request an extension once a year to maintain the tenors of three years and five years of the respective tranches. The credit facility provides for borrowings at various benchmark interest rates, plus applicable margins, based on CN's debt credit ratings and sustainability targets. As at March 31, 2021 and December 31, 2020, the Company had no outstanding borrowings under this revolving credit facility and there were no draws during the three months ended March 31, 2021.

The Company had a \$390 million one year revolving credit facility available for working capital and general corporate purposes, which expired on March 27, 2021. As at March 31, 2021 and December 31, 2020, the Company had no outstanding borrowings under this revolving credit facility and there were no draws during the three months ended March 31, 2021.

Both credit facility agreements have one financial covenant, which limits debt as a percentage of total capitalization, and with which the Company is in compliance.

Non-revolving credit facility

The Company has a non-revolving term loan credit facility for financing or refinancing the purchase of equipment, where US\$300 million was available to be drawn upon through March 31, 2020 and US\$310 million through March 31, 2021. The equipment loans made under this facility have a tenor of 20 years, bear interest at a variable rate, are repayable in equal quarterly installments, are prepayable at any time without penalty, and are secured by rolling stock.

On March 31, 2021, the Company issued a US\$310 million (\$389 million) equipment loan under this facility and repaid US\$4 million (\$5 million) in the three months ended March 31, 2021.

As at March 31, 2021, the Company had outstanding borrowings of US\$595 million (\$747 million), at a weighted-average interest rate of 0.82% and had no amount available under this non-revolving term loan facility. As at December 31, 2020, the Company had outstanding borrowings of US\$289 million (\$368 million), at an interest rate of 0.87% and had US\$310 million available under this non-revolving term loan facility.

Commercial paper

The Company has a commercial paper program in Canada and in the U.S. Both programs are backstopped by the Company's revolving credit facility. The maximum aggregate principal amount of commercial paper that could be issued is \$2.0 billion, or the US dollar equivalent, on a combined basis.

As at March 31, 2021 and December 31, 2020, the Company had total commercial paper borrowings of US\$50 million (\$63 million) and US\$44 million (\$56 million), respectively, at a weighted-average interest rate of 0.10% and 0.13%, respectively, presented in Current portion of long-term debt on the Consolidated Balance Sheets.

The following table provides a summary of cash flows associated with the issuance and repayment of commercial paper for the three months ended March 31, 2021 and 2020:

<i>In millions</i>	Three months ended March 31	
	2021	2020
Commercial paper with maturities less than 90 days		
Issuance	\$ 1,237	\$ 1,658
Repayment	(1,193)	(1,512)
<i>Change in commercial paper with maturities less than 90 days, net</i>	\$ 44	\$ 146
Commercial paper with maturities of 90 days or greater		
Issuance	\$ —	\$ 579
Repayment	(31)	(421)
<i>Change in commercial paper with maturities of 90 days or greater, net</i>	\$ (31)	\$ 158
<i>Change in commercial paper, net</i>	\$ 13	\$ 304

Accounts receivable securitization program

The Company has an agreement, expiring on February 1, 2023, to sell an undivided co-ownership interest in a revolving pool of accounts receivable to unrelated trusts for maximum cash proceeds of \$450 million.

As at March 31, 2021, and December 31, 2020 the Company had no borrowings under the accounts receivable securitization program and there were no activities for the three months ended March 31, 2021.

Notes to Unaudited Consolidated Financial Statements

Bilateral letter of credit facilities

The Company has a series of committed and uncommitted bilateral letter of credit facility agreements. On March 31, 2021, the Company extended the maturity date of the committed bilateral letter of credit facility agreements to April 28, 2024. The agreements are held with various banks to support the Company's requirements to post letters of credit in the ordinary course of business. Under these agreements, the Company has the option from time to time to pledge collateral in the form of cash or cash equivalents, for a minimum term of one month, equal to at least the face value of the letters of credit issued.

As at March 31, 2021, the Company had outstanding letters of credit of \$420 million (\$421 million as at December 31, 2020) under the committed facilities from a total available amount of \$490 million (\$492 million as at December 31, 2020) and \$165 million (\$165 million as at December 31, 2020) under the uncommitted facilities.

As at March 31, 2021, included in Restricted cash and cash equivalents was \$422 million (\$424 million as at December 31, 2020) and \$100 million (\$100 million as at December 31, 2020) which were pledged as collateral under the committed and uncommitted bilateral letter of credit facilities, respectively.

Repurchase of common shares

The Company may repurchase its common shares pursuant to a Normal Course Issuer Bid (NCIB) at prevailing market prices plus brokerage fees, or such other prices as may be permitted by the Toronto Stock Exchange. After pausing its share repurchases at the end of March 2020 due to the economic circumstances resulting from the COVID-19 pandemic, the Company resumed its share repurchases in the first quarter of 2021 under the current NCIB. The current NCIB allows the Company to repurchase up to 14.0 million common shares between February 1, 2021 and January 31, 2022. As at March 31, 2021, the Company had repurchased 2.1 million common shares for \$291 million under its current NCIB.

The Company repurchased 2.0 million common shares under its previous NCIB effective between February 1, 2020 and January 31, 2021, which allowed for the repurchase of up to 16.0 million common shares.

The following table provides the information related to the share repurchases for the three months ended March 31, 2021 and 2020:

<i>In millions, except per share data</i>	Three months ended March 31	
	2021	2020
Number of common shares repurchased	2.1	3.3
Weighted-average price per share ⁽¹⁾	\$ 140.70	\$ 116.97
Amount of repurchase ⁽¹⁾⁽²⁾	\$ 291	\$ 379

(1) Includes brokerage fees.

(2) Includes settlements in subsequent periods.

Share Trusts

The Company's Employee Benefit Plan Trusts ("Share Trusts") purchase CN common shares on the open market, which are used to deliver common shares under the Share Units Plan and the Employee Share Investment Plan (ESIP) (see Note 11 – Stock-based compensation). Shares purchased by the Share Trusts are retained until the Company instructs the trustee to transfer shares to participants of the Share Units Plan or the ESIP. Additional information relating to Share Trusts is provided in Note 18 – Share capital to the Company's 2020 Annual Consolidated Financial Statements.

9 – Other current assets

The following table provides a breakdown of Other current assets as at March 31, 2021 and December 31, 2020:

<i>In millions</i>	March 31	December 31
	2021	2020
Assets held for sale (Note 4)	\$ 260	\$ 90
Prepaid expenses	162	148
Income taxes receivable	59	85
Other	36	42
<i>Total other current assets</i>	<i>\$ 517</i>	<i>\$ 365</i>

Notes to Unaudited Consolidated Financial Statements

10 – Leases

The Company engages in short and long-term leases for rolling stock including locomotives and freight cars, equipment, real estate and service contracts that contain embedded leases.

The following table provides the Company's lease costs for the three months ended March 31, 2021 and 2020:

<i>In millions</i>	Three months ended March 31	
	2021	2020
Finance lease cost		
Amortization of right-of-use assets	\$ 3	\$ 3
Interest on lease liabilities	1	1
<i>Total finance lease cost</i>	4	4
Operating lease cost	30	35
Short-term lease cost	9	11
Variable lease cost ⁽¹⁾	14	14
<i>Total lease cost</i> ⁽²⁾	\$ 57	\$ 64

(1) Mainly relates to leases of trucks for the Company's freight delivery service contracts.

(2) Includes lease costs from purchased services and material and equipment rents in the Consolidated Statements of Income.

The following table provides the Company's lease right-of-use assets and lease liabilities, and their classification on the Consolidated Balance Sheets as at March 31, 2021 and December 31, 2020:

<i>In millions</i>	Classification	March 31 2021	December 31 2020
Lease right-of-use assets			
Finance leases	Properties	\$ 472	\$ 477
Operating leases	Operating lease right-of-use assets	403	435
<i>Total lease right-of-use assets</i>		\$ 875	\$ 912
Lease liabilities			
Current			
Finance leases	Current portion of long-term debt	\$ 67	\$ 70
Operating leases	Accounts payable and other	98	107
Noncurrent			
Finance leases	Long-term debt	4	4
Operating leases	Operating lease liabilities	289	311
<i>Total lease liabilities</i>		\$ 458	\$ 492

The following table provides the remaining lease terms and discount rates for the Company's leases as at March 31, 2021 and December 31, 2020:

	March 31 2021	December 31 2020
Weighted-average remaining lease term (years)		
Finance leases	0.6	0.8
Operating leases	6.9	6.8
Weighted-average discount rate (%)		
Finance leases	3.06	3.10
Operating leases	2.78	2.79

Notes to Unaudited Consolidated Financial Statements

The following table provides additional information for the Company's leases for the three months ended March 31, 2021 and 2020:

<i>In millions</i>	Three months ended March 31	
	2021	2020
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash outflows from operating leases	\$ 30	\$ 37
Operating cash outflows from finance leases	\$ 1	\$ 1
Financing cash outflows from finance leases	\$ 2	\$ 9
Right-of-use assets obtained in exchange for lease liabilities		
Operating lease	\$ 1	\$ 9
Finance lease	\$ —	\$ —

The following table provides the maturities of lease liabilities for the next five years and thereafter as at March 31, 2021:

<i>In millions</i>	Finance leases	Operating leases ⁽¹⁾
2021	\$ 68	\$ 85
2022	1	81
2023	—	60
2024	—	42
2025	—	37
2026 and thereafter	3	124
<i>Total lease payments</i>	72	429
<i>Less: Imputed interest</i>	1	42
<i>Present value of lease payments</i>	\$ 71	\$ 387

(1) Includes \$70 million related to renewal options that are reasonably certain to be exercised.

11 – Stock-based compensation

The Company has various stock-based compensation plans for eligible employees. A description of the major plans is provided in Note 19 – Stock-based compensation to the Company's 2020 Annual Consolidated Financial Statements.

The following table provides the Company's total stock-based compensation expense for awards under all plans, as well as the related tax benefit and excess tax benefit recognized in income, for the three months ended March 31, 2021 and 2020:

<i>In millions</i>	Three months ended March 31			
	2021		2020	
Share Units Plan ⁽¹⁾	\$	13	\$	4
Voluntary Incentive Deferral Plan (VIDP) ⁽²⁾		1		(1)
Stock option awards		3		3
Employee Share Investment Plan (ESIP)		4		7
Total stock-based compensation expense	\$	21	\$	13
Income tax impacts of stock-based compensation				
Tax benefit recognized in income	\$	5	\$	3
Excess tax benefit recognized in income	\$	9	\$	13

(1) Performance share unit (PSU) awards are granted under the Share Units Plan.

(2) Deferred share unit (DSU) awards are granted under the Voluntary Incentive Deferral Plan.

Share Units Plan

The following table provides a summary of the activity related to PSU awards for the three months ended March 31, 2021:

	Equity settled			
	PSUs-ROIC ⁽¹⁾		PSUs-TSR ⁽²⁾	
	Units	Weighted-average grant date fair value	Units	Weighted-average grant date fair value
	<i>In millions</i>		<i>In millions</i>	
Outstanding at December 31, 2020	0.9	\$ 65.06	0.3	\$ 131.57
Granted	0.2	\$ 64.50	0.2	\$ 148.02
Settled ⁽³⁾	(0.3)	\$ 51.28	(0.1)	\$ 105.26
Forfeited	—	\$ 68.47	—	\$ 142.61
Outstanding at March 31, 2021	0.8	\$ 69.80	0.4	\$ 144.43

(1) The grant date fair value of equity settled PSUs-ROIC granted in 2021 of \$17 million is calculated using a lattice-based valuation model. As at March 31, 2021, total unrecognized compensation cost related to all outstanding awards was \$24 million and is expected to be recognized over a weighted-average period of 2.1 years.

(2) The grant date fair value of equity settled PSUs-TSR granted in 2021 of \$20 million is calculated using a Monte Carlo simulation model. As at March 31, 2021, total unrecognized compensation cost related to all outstanding awards was \$27 million and is expected to be recognized over a weighted-average period of 2.1 years.

(3) Equity settled PSUs-ROIC granted in 2018 met the minimum share price condition for settlement and attained a performance vesting factor of 111%. Equity settled PSUs-TSR granted in 2018 attained a performance vesting factor of 99%. In the first quarter of 2021, these awards were settled, net of the remittance of the participants' withholding tax obligation of \$27 million, by way of disbursement from the Share Trusts of 0.2 million common shares.

Notes to Unaudited Consolidated Financial Statements

Voluntary Incentive Deferral Plan

The following table provides a summary of the activity related to DSU awards for the three months ended March 31, 2021:

	Equity settled		Cash settled
	DSUs ⁽¹⁾		DSUs ⁽²⁾
	Units	Weighted-average grant date fair value	Units
	In millions		In millions
Outstanding at December 31, 2020	0.6	\$ 83.47	0.1
Granted	—	\$ 137.85	—
Settled	—	\$ 86.95	—
Outstanding at March 31, 2021 ⁽³⁾	0.6	\$ 86.24	0.1

(1) The grant date fair value of equity settled DSUs granted is calculated using the Company's stock price on the grant date. As at March 31, 2021, the aggregate intrinsic value of all equity settled DSUs outstanding amounted to \$83 million.

(2) The fair value of cash settled DSUs as at March 31, 2021 is based on the intrinsic value. As at March 31, 2021, the liability for all cash settled DSUs was \$14 million (\$14 million as at December 31, 2020). The closing stock price used to determine the liability was \$145.84.

(3) The total fair value of equity settled DSU awards vested, the number of units outstanding that were nonvested, unrecognized compensation cost and the remaining recognition period for cash and equity settled DSUs have not been quantified as they relate to a minimal number of units.

Stock option awards

The following table provides the activity of stock option awards for options outstanding and the weighted-average exercise price for the three months ended March 31, 2021:

	Options outstanding	
	Number of options	Weighted-average exercise price
	In millions	
Outstanding at December 31, 2020 ⁽¹⁾	3.6	\$ 97.15
Granted ⁽²⁾	0.7	\$ 133.17
Exercised	(0.2)	\$ 83.19
Forfeited	—	\$ 119.67
Outstanding at March 31, 2021 ^{(1) (2) (3)}	4.1	\$ 103.08
Exercisable at March 31, 2021 ^{(1) (3)}	2.2	\$ 88.12

(1) Stock options with a US dollar exercise price have been translated into Canadian dollars using the foreign exchange rate in effect at the balance sheet date.

(2) The grant date fair value of options granted in 2021 of \$14 million (\$20.38 per option) is calculated using the Black-Scholes option-pricing model. As at March 31, 2021, total unrecognized compensation cost related to all outstanding awards was \$21 million and is expected to be recognized over a weighted-average period of 2.8 years.

(3) The weighted-average term to expiration of options outstanding was 7.1 years and the weighted-average term to expiration of exercisable stock options was 5.7 years. As at March 31, 2021, the aggregate intrinsic value of in-the-money stock options outstanding amounted to \$174 million and the aggregate intrinsic value of stock options exercisable amounted to \$126 million.

Employee Share Investment Plan

The following table provides a summary of the activity related to the ESIP for the three months ended March 31, 2021:

	ESIP	
	Number of shares	Weighted-average share price
	In millions	
Unvested contributions, December 31, 2020	0.2	\$ 122.07
Company contributions	—	\$ 139.59
Forfeited	—	\$ 133.02
Vested ⁽¹⁾	(0.1)	\$ 117.33
Unvested contributions, March 31, 2021 ⁽²⁾	0.1	\$ 130.32

(1) As at March 31, 2021 the total fair value of units purchased with Company contributions that vested was \$6 million.

(2) As at March 31, 2021, total unrecognized compensation cost related to all outstanding awards was \$10 million and is expected to be recognized over the next twelve months.

Notes to Unaudited Consolidated Financial Statements

12 – Accumulated other comprehensive loss

The following tables present the accumulated other comprehensive loss as at March 31, 2021 and 2020:

<i>In millions</i>	Foreign currency translation adjustments	Pension and other postretirement benefit plans	Total before tax	Income tax recovery (expense) ⁽¹⁾	Total net of tax
Balance at December 31, 2020	\$ (379)	\$ (4,161)	\$ (4,540)	\$ 1,068	\$ (3,472)
Other comprehensive income (loss) before reclassifications:					
Foreign exchange loss on translation of net investment in foreign operations	(166)		(166)	–	(166)
Foreign exchange gain on translation of US dollar-denominated debt designated as a hedge of the net investment in foreign operations ⁽²⁾	109		109	(14)	95
Amounts reclassified from Accumulated other comprehensive loss:					
Amortization of net actuarial loss		72	72 ⁽³⁾	(19) ⁽⁴⁾	53
Amortization of prior service cost		–	– ⁽³⁾	– ⁽⁴⁾	–
<i>Other comprehensive income (loss)</i>	(57)	72	15	(33)	(18)
Balance at March 31, 2021	\$ (436)	\$ (4,089)	\$ (4,525)	\$ 1,035	\$ (3,490)

<i>In millions</i>	Foreign currency translation adjustments	Pension and other postretirement benefit plans	Total before tax	Income tax recovery (expense) ⁽¹⁾	Total net of tax
Balance at December 31, 2019	\$ (297)	\$ (4,321)	\$ (4,618)	\$ 1,135	\$ (3,483)
Other comprehensive income (loss) before reclassifications:					
Foreign exchange gain on translation of net investment in foreign operations	1,098		1,098	–	1,098
Foreign exchange loss on translation of US dollar-denominated debt designated as a hedge of the net investment in foreign operations ⁽²⁾	(646)		(646)	85	(561)
Amounts reclassified from Accumulated other comprehensive loss:					
Amortization of net actuarial loss		61	61 ⁽³⁾	(17) ⁽⁴⁾	44
Amortization of prior service cost		1	1 ⁽³⁾	– ⁽⁴⁾	1
<i>Other comprehensive income</i>	452	62	514	68	582
Balance at March 31, 2020	\$ 155	\$ (4,259)	\$ (4,104)	\$ 1,203	\$ (2,901)

(1) The Company releases stranded tax effects from Accumulated other comprehensive loss to Net income upon the liquidation or termination of the related item.

(2) The Company designates US dollar-denominated debt of the parent company as a foreign currency hedge of its net investment in foreign operations. Accordingly, from the dates of designation, foreign exchange gains and losses on translation of the Company's US dollar-denominated debt are recorded in Accumulated other comprehensive loss, which minimizes the volatility of earnings resulting from the conversion of US dollar-denominated debt into Canadian dollars.

(3) Reclassified to Other components of net periodic benefit income in the Consolidated Statements of Income and included in net periodic benefit cost. See Note 5 - Pensions and other postretirement benefits.

(4) Included in Income tax expense in the Consolidated Statements of Income.

13 – Major commitments and contingencies

Purchase commitments

As at March 31, 2021, the Company had fixed and variable commitments to purchase information technology services and licenses, rail, wheels, engineering services, locomotives, railroad ties, rail cars as well as other equipment and services with a total estimated cost of \$1,278 million. Costs of variable commitments were estimated using forecasted prices and volumes.

Contingencies

In the normal course of business, the Company becomes involved in various legal actions seeking compensatory and occasionally punitive damages, including actions brought on behalf of various purported classes of claimants and claims relating to employee and third-party personal injuries, occupational disease and property damage, arising out of harm to individuals or property allegedly caused by, but not limited to, derailments or other accidents.

As at March 31, 2021, the Company had aggregate reserves for personal injury and other claims of \$354 million, of which \$104 million was recorded as a current liability (\$347 million as at December 31, 2020, of which \$109 million was recorded as a current liability).

Although the Company considers such provisions to be adequate for all its outstanding and pending claims, the final outcome with respect to actions outstanding or pending as at March 31, 2021, or with respect to future claims, cannot be reasonably determined. When establishing provisions for contingent liabilities the Company considers, where a probable loss estimate cannot be made with reasonable certainty, a range of potential probable losses for each such matter, and records the amount it considers the most reasonable estimate within the range. However, when no amount within the range is a better estimate than any other amount, the minimum amount in the range is accrued. For matters where a loss is reasonably possible but not probable, a range of potential losses cannot be estimated due to various factors which may include the limited availability of facts, the lack of demand for specific damages and the fact that proceedings were at an early stage. Based on information currently available, the Company believes that the eventual outcome of the actions against the Company will not, individually or in the aggregate, have a material adverse effect on the Company's financial position. However, due to the inherent inability to predict with certainty unforeseeable future developments, there can be no assurance that the ultimate resolution of these actions will not have a material adverse effect on the Company's results of operations, financial position or liquidity.

Environmental matters

A description of the Company's environmental matters is provided in *Note 21 – Major commitments and contingencies* to the Company's 2020 Annual Consolidated Financial Statements.

The Company's provision for specific environmental sites is undiscounted and includes costs for remediation and restoration of sites, as well as monitoring costs. Costs related to any unknown existing or future contamination will be accrued in the period in which they become probable and reasonably estimable.

As at March 31, 2021, the Company had aggregate accruals for environmental costs of \$58 million, of which \$42 million was recorded as a current liability (\$59 million as at December 31, 2020, of which \$46 million was recorded as a current liability).

The Company anticipates that the majority of the liability at March 31, 2021 will be paid out over the next five years. Based on the information currently available, the Company considers its accruals to be adequate.

Guarantees and indemnifications

A description of the Company's guarantees and indemnifications is provided in *Note 21 – Major commitments and contingencies* to the Company's 2020 Annual Consolidated Financial Statements.

As at March 31, 2021, the Company had outstanding letters of credit of \$420 million (\$421 million as at December 31, 2020) under the committed bilateral letter of credit facilities and \$165 million (\$165 million as at December 31, 2020) under the uncommitted bilateral letter of credit facilities, and surety and other bonds of \$166 million (\$168 million as at December 31, 2020), all issued by financial institutions with investment grade credit ratings to third parties to indemnify them in the event the Company does not perform its contractual obligations.

As at March 31, 2021, the maximum potential liability under these guarantee instruments was \$751 million (\$754 million as at December 31, 2020), of which \$687 million (\$688 million as at December 31, 2020) related to other employee benefit liabilities and workers' compensation and \$64 million (\$66 million as at December 31, 2020) related to other liabilities. The guarantee instruments expire at various dates between 2021 and 2025.

As at March 31, 2021, the Company had not recorded a liability with respect to guarantees and indemnifications as the Company did not expect to make any payments under its guarantees and indemnifications.

14 – Financial instruments

Derivative financial instruments

The Company uses derivative financial instruments from time to time in the management of its foreign currency and interest rate exposures. The Company has limited involvement with derivative financial instruments in the management of its risks and does not hold or issue them for trading or speculative purposes. As at March 31, 2021, the Company had outstanding foreign exchange forward contracts with a notional value of US\$628 million (US\$397 million as at December 31, 2020). Changes in the fair value of foreign exchange forward contracts, resulting from changes in foreign exchange rates, are recognized in Other income in the Consolidated Statements of Income as they occur.

For the three months ended March 31, 2021 and 2020, the Company recorded a loss of \$13 million and a gain of \$126 million, respectively, related to foreign exchange forward contracts. These gains and losses were largely offset by the re-measurement of US dollar-denominated monetary assets and liabilities recorded in Other income.

As at March 31, 2021, the fair value of outstanding foreign exchange forward contracts included in Other current assets and Accounts payable and other was \$nil and \$11 million, respectively (\$nil and \$18 million, respectively, as at December 31, 2020).

Fair value of financial instruments

The financial instruments that the Company measures at fair value on a recurring basis in periods subsequent to initial recognition are categorized into the following levels of the fair value hierarchy based on the degree to which inputs are observable:

- Level 1: Inputs are quoted prices for identical instruments in active markets
- Level 2: Significant inputs (other than quoted prices included in Level 1) are observable
- Level 3: Significant inputs are unobservable

The carrying amounts of Cash and cash equivalents and Restricted cash and cash equivalents approximate fair value. These financial instruments include highly liquid investments purchased three months or less from maturity, for which the fair value is determined by reference to quoted prices in active markets.

The carrying amounts of Accounts receivable, Other current assets and Accounts payable and other approximate fair value due to their short maturity, unless otherwise specified. The fair value of derivative financial instruments, included in Other current assets and Accounts payable and other is classified as Level 2 and is used to manage the Company's exposure to foreign currency risk. The fair value is measured by discounting future cash flows using a discount rate derived from market data for financial instruments subject to similar risks and maturities.

The carrying amount of the Company's debt does not approximate fair value. The fair value is estimated based on quoted market prices for the same or similar debt instruments, as well as discounted cash flows using current interest rates for debt with similar terms, company rating, and remaining maturity. The Company classifies debt as Level 2. As at March 31, 2021, the Company's debt, excluding finance leases, had a carrying amount of \$12,857 million (\$12,832 million as at December 31, 2020) and a fair value of \$14,658 million (\$16,046 million as at December 31, 2020).

15 – Subsequent events

Proposal to combine with Kansas City Southern ("KCS")

On April 20, 2021, CN submitted a proposal to the Board of Directors of KCS to acquire KCS in a cash-and-stock transaction representing an enterprise value of US\$33.7 billion (based on the CN closing price on April 19, 2021, the last trading day prior to CN's proposal), including the assumption of approximately US\$3.8 billion of KCS debt. Under the terms of such proposal, holders of KCS common shares would receive US\$325 per share (based on the CN closing price on April 19, 2021), comprised of US\$200 in cash and 1.059 shares of CN common stock.

On April 24, 2021, KCS announced that its Board of Directors had unanimously determined that CN's proposal could reasonably be expected to lead to a "Company Superior Proposal" as defined in KCS' existing merger agreement with CP and that it would engage in discussions and negotiations with CN.

Repurchase of common shares

As a result of the proposal to combine with KCS, the Company will pause share repurchases and will reassess on an ongoing basis.

Management's Discussion and Analysis

This Management's Discussion and Analysis (MD&A) dated April 26, 2021, relates to the consolidated financial position and results of operations of Canadian National Railway Company, together with its wholly-owned subsidiaries, collectively "CN" or the "Company," and should be read in conjunction with the Company's 2021 unaudited Interim Consolidated Financial Statements and Notes thereto. It should also be read in conjunction with the Company's 2020 audited Annual Consolidated Financial Statements and Notes thereto, and the 2020 Annual MD&A. All financial information reflected herein is expressed in Canadian dollars and prepared in accordance with United States generally accepted accounting principles (GAAP), unless otherwise noted.

CN's common shares are listed on the Toronto and New York stock exchanges. Additional information about CN filed with Canadian securities regulatory authorities and the United States Securities and Exchange Commission (SEC), including the Company's 2020 Annual Information Form and Form 40-F, may be found online on SEDAR at www.sedar.com, on the SEC's website at www.sec.gov through EDGAR, and on the Company's website at www.cn.ca in the Investors section. Printed copies of such documents may be obtained by contacting CN's Corporate Secretary's Office.

Strategy overview

A description of the Company's strategy is provided in the section entitled *Strategy overview* of the Company's 2020 Annual MD&A.

First quarter 2021 compared to first quarter 2020

- CN demonstrated continued recovery from the COVID-19 pandemic as the economy rebounded with record first quarter revenue ton miles (RTMs) and carloads despite the polar vortex experienced in February 2021.
- Operating expenses decreased by \$122 million, or 5%, to \$2,208 million, which includes a \$137 million recovery of the loss on assets held for sale.
- Operating income was \$1,327 million, an increase of \$112 million or 9% and adjusted operating income decreased by \$25 million, or 2%, to \$1,190 million. ⁽¹⁾
- Revenues of \$3,535 million were in line with the prior year.
- Operating ratio was 62.5%, an improvement of 3.2-points and adjusted operating ratio was 66.3%, an increase of 0.6-points. ⁽¹⁾
- Net income decreased by \$37 million, or 4%, to \$974 million and diluted earnings per share (EPS) decreased by 4% to \$1.37.
- Adjusted net income remained flat at \$872 million and adjusted diluted EPS increased by 1% to \$1.23. ⁽¹⁾
- CN achieved 13 consecutive months of record grain movements, moving 22.7 million metric tonnes of Canadian grain so far during the 2020-2021 crop year.
- Fuel efficiency improved by 4% to 0.92 US gallons of locomotive fuel consumed per 1,000 gross ton miles.
- Fuel related headwinds, the time lag between rising fuel prices and the related increase in fuel surcharge rates, negatively impacted the operating ratio by 1.9%.
- CN paid a quarterly dividend of \$0.615 per share, representing an increase of 7%, amounting to \$436 million.
- CN recovered \$137 million, or \$102 million after-tax (\$0.14 per diluted share), of the \$486 million loss on assets held for sale recorded in the second quarter of 2020, resulting from the Company entering into an agreement for the sale of non-core lines in Wisconsin, Michigan and Ontario.

(1) See the section of this MD&A entitled *Adjusted performance measures for an explanation of these non-GAAP measures*.

COVID-19 pandemic

The COVID-19 pandemic necessitated governments, institutions and communities to take extraordinary actions to mitigate the contagion, resulting in unprecedented uncertainty arising from the partial global economic shutdown and severe contraction in the global economy. In North America and around the world, COVID-19 cases continue to rise and some governments are still imposing various social distancing measures, partial lockdowns and other restrictions. In December 2020, vaccines began to be approved in North America, as well as other parts of the world, with a rollout beginning that month for high-risk populations and further distribution in 2021. The focus for CN has been on nimbly adjusting to the partial economic shutdown and remaining alert to potential further restrictive measures as well as a high level of uncertainty in the operating environment going forward. As a designated essential service provider, CN continues to execute its business continuity plans to deliver for its customers, the economy and the communities in which it operates, demonstrating its key role in the integrated global supply chain.

As CN is part of an integrated global supply chain, the impact of the COVID-19 pandemic on aspects of the supply chain, including ocean carriers, ports, terminals, trucking firms, and other railroads, has a consequential impact on the Company's operations.

Management's Discussion and Analysis

The effects of the COVID-19 pandemic were still present in the first quarter of 2021, most notably in the decline in demand for energy related commodities including petroleum crude, refined petroleum products and frac sand, finished vehicles and parts, chemicals and plastics and pulp and paper. Nevertheless, the COVID-19 pandemic did bring on positive shifts in demand in the export grain and fertilizers, intermodal and forest products segments in the first quarter of 2021.

The long-term implications of the COVID-19 pandemic, including the extent of the impact on the business, financial position, results of operations and liquidity, continue to remain unknown and will depend on future developments, which are highly uncertain and cannot be predicted, including the scope and duration of the pandemic as well as additional actions taken by governmental authorities and other parties in response to the pandemic.

Assets held for sale

In the second quarter of 2020, the Company committed to a plan and began to actively market for sale for on-going rail operations, certain non-core lines in Wisconsin, Michigan and Ontario ("non-core lines") representing approximately 850 miles and had met the criteria for classification of the related assets as assets held for sale. Accordingly, a \$486 million loss (\$363 million after-tax) was recorded to adjust the carrying amount of these track and roadway assets to their then estimated net selling price. The carrying amount of assets held for sale was included in Other current assets in the Consolidated Balance Sheets. See *Note 9 - Other current assets*.

On March 30, 2021, CN entered into an agreement with a short line operator, for the sale of the non-core lines plus an additional 50 miles of track and roadway assets not originally included within assets held for sale, subject to various conditions including regulatory authorization by the Surface Transportation Board (STB). As at March 31, 2021, the carrying amount of assets held for sale was adjusted to \$260 million (\$90 million as at December 31, 2020), to reflect the contractual selling price net of estimated transaction costs and the additional track and roadway assets included as part of the agreement. The increase of \$170 million during the quarter includes a \$137 million recovery of the loss (\$102 million after-tax) on the non-core lines and \$33 million for the additional track and roadway assets.

As at March 31, 2021, the criteria for the classification of assets held for sale continued to be met.

Acquisition

On April 6, 2020, the STB issued its decision conditionally approving the acquisition of the Massena rail line from CSX Corporation ("CSX"), which the Company announced its agreement to purchase on August 29, 2019. On June 6, 2020, CN and CSX sought reconsideration asking the STB to remove its condition which requires the parties to propose a change to the line sale agreement for the STB's review. On February 25, 2021, the STB denied the parties' petitions for reconsideration. On April 23, 2021, the Company appealed the STB's condition in its April 6, 2020 and February 25, 2021 decisions.

Proposal to combine with Kansas City Southern ("KCS")

On March 21, 2021, Canadian Pacific Railway Limited ("CP") and KCS announced they had entered into a merger agreement, under which CP has agreed to acquire KCS in a stock and cash transaction for an enterprise value of US\$29.0 billion, including the assumption of approximately US\$3.8 billion of KCS debt, subject to closing conditions.

On April 20, 2021, CN submitted a proposal to the Board of Directors of KCS to acquire KCS in a cash-and-stock transaction representing an enterprise value of US\$33.7 billion (based on the CN closing price on April 19, 2021, the last trading day prior to CN's proposal), including the assumption of approximately US\$3.8 billion of KCS debt. Under the terms of such proposal, holders of KCS common shares would receive US\$325 per share (based on the CN closing price on April 19, 2021), comprised of US\$200 in cash and 1.059 shares of CN common stock.

On April 24, 2021, KCS announced that its Board of Directors had unanimously determined that CN's proposal could reasonably be expected to lead to a "Company Superior Proposal" as defined in KCS' existing merger agreement with CP and that it would engage in discussions and negotiations with CN.

There can be no assurance that the foregoing transaction between CN and KCS will be completed on the terms proposed or at all.

2021 Business outlook and assumptions

For 2021, the Company continues to expect growth across a range of commodities, particularly in coal exports, intermodal traffic, lumber and panels, metals and minerals, and frac sand compared to 2020. The Company now expects higher volumes of iron ore exports, refined petroleum products including natural gas liquids, potash and U.S. grain, and lower volumes of Canadian Grain for 2021 compared to 2020.

Underpinning the 2021 business outlook, the Company now assumes that North American industrial production will increase in the high single-digit range. For the 2020/2021 crop year, the grain crop in Canada was above its three-year average and the U.S. grain crop was in line with its three-year average. The Company assumes that the 2021/2022 grain crops in both Canada and the U.S. will be in line with their respective three-year averages.

Management's Discussion and Analysis

The forward-looking statements discussed in this section are subject to risks and uncertainties that could cause actual results or performance to differ materially from those expressed or implied in such statements and are based on certain factors and assumptions which the Company considers reasonable, about events, developments, prospects and opportunities that may not materialize or that may be offset entirely or partially by other events and developments. In addition to the assumptions and expectations discussed in this section, reference should be made to the section of this MD&A entitled *Forward-looking statements* for assumptions and risk factors affecting such statements.

Forward-looking statements

Certain statements included in this MD&A are "forward-looking statements" within the meaning of the *United States Private Securities Litigation Reform Act of 1995* and under Canadian securities laws, including statements based on management's assessment and assumptions and publicly available information with respect to KCS, regarding the proposed transaction between CN and KCS, the expected benefits and synergies of the proposed transaction, future opportunities for the combined company and future shareholder returns. By their nature, forward-looking statements involve risks, uncertainties and assumptions. The Company cautions that its assumptions may not materialize and that current economic conditions render such assumptions, although reasonable at the time they were made, subject to greater uncertainty. Forward-looking statements may be identified by the use of terminology such as "believes," "expects," "anticipates," "assumes," "outlook," "plans," "targets" or other similar words.

Forward-looking statements include, but are not limited to, those set forth in the table below, which also presents key assumptions used in determining the forward-looking statements. See also the section of this MD&A entitled *Strategy overview - 2021 Business outlook and assumptions*.

Forward-looking statements	Key assumptions
Statements relating to revenue growth opportunities, including those referring to general economic and business conditions	<ul style="list-style-type: none"> • North American and global economic growth • Long-term growth opportunities being less affected by current economic conditions • The COVID-19 pandemic gradually diminishing in intensity in the second half of 2021 following increased vaccination • No material increase in disruption of CN's operations or of the economy's supply chains as a result of the COVID-19 pandemic in the shorter term
Statements relating to the Company's ability to meet debt repayments and future obligations in the foreseeable future, including income tax payments, and capital spending	<ul style="list-style-type: none"> • Adequate credit ratios • Investment-grade credit ratings • Access to capital markets • Adequate cash generated from operations and other sources of financing
Statements relating to pension contributions	<ul style="list-style-type: none"> • Adequate cash generated from operations and other sources of financing • Adequate long-term return on investment on pension plan assets • Level of funding as determined by actuarial valuations, particularly influenced by discount rates for funding purposes

Forward-looking statements are not guarantees of future performance and involve risks, uncertainties and other factors which may cause the actual results, performance or achievements of CN, or the combined company, to be materially different from the outlook or any future results, performance or achievements implied by such statements. Accordingly, readers are advised not to place undue reliance on forward-looking statements. Important risk factors that could affect the forward-looking statements include, but are not limited to: the outcome of any possible transaction between CN and KCS, including the possibility that a transaction will not be agreed to or that the terms of any definitive agreement will be materially different from those described; the parties' ability to consummate the proposed transaction; the conditions to the completion of the proposed transaction; that the regulatory approvals required for the proposed transaction may not be obtained on the terms expected or on the anticipated schedule or at all; CN's indebtedness, including the substantial indebtedness CN expects to incur and assume in connection with the proposed transaction and the need to generate sufficient cash flows to service and repay such debt; CN's ability to meet expectations regarding the timing, completion, accounting and tax treatments of the proposed transaction; the possibility that CN may be unable to achieve expected synergies and operating efficiencies within the expected time-frames or at all and to successfully integrate KCS' operations with those of CN; that such integration may be more difficult, time-consuming or costly than expected; that operating costs, customer loss and business disruption (including, without limitation, difficulties in maintaining relationships with employees, customers or suppliers) may be greater than expected following the proposed transaction or the public announcement of the proposed transaction; the retention of certain key employees of KCS may be difficult; the duration and effects of the COVID-19 pandemic, general economic and business conditions, particularly in the context of the COVID-19 pandemic; industry competition; inflation, currency and interest rate fluctuations; changes in fuel prices; legislative and/or

Management's Discussion and Analysis

regulatory developments; compliance with environmental laws and regulations; actions by regulators; the adverse impact of any termination or revocation by the Mexican government of KCS de México, S.A. de C.V.'s Concession; increases in maintenance and operating costs; security threats; reliance on technology and related cybersecurity risk; trade restrictions or other changes to international trade arrangements; transportation of hazardous materials; various events which could disrupt operations, including illegal blockades of rail networks and natural events such as severe weather, droughts, fires, floods and earthquakes; climate change; labor negotiations and disruptions; environmental claims; uncertainties of investigations, proceedings or other types of claims and litigation; risks and liabilities arising from derailments; timing and completion of capital programs; and other risks detailed from time to time in reports filed by CN with securities regulators in Canada and the U.S., including its Annual Information Form and Form 40-F. See the section entitled *Business risks* of this MD&A and the Company's 2020 Annual MD&A for a description of major risk factors relating to CN.

Forward-looking statements reflect information as of the date on which they are made. CN assumes no obligation to update or revise forward-looking statements to reflect future events, changes in circumstances, or changes in beliefs, unless required by applicable securities laws. In the event CN does update any forward-looking statement, no inference should be made that CN will make additional updates with respect to that statement, related matters, or any other forward-looking statement.

Financial highlights

The following table lists key measures of the Company's financial performance for the three months ended March 31, 2021 and 2020:

<i>In millions, except percentage and per share data</i>	Three months ended March 31		
	2021	2020	% Change
Revenues	\$ 3,535	\$ 3,545	—%
Operating income	\$ 1,327	\$ 1,215	9%
Adjusted operating income ⁽¹⁾	\$ 1,190	\$ 1,215	(2%)
Net income	\$ 974	\$ 1,011	(4%)
Adjusted net income ⁽¹⁾	\$ 872	\$ 870	—%
Basic earnings per share	\$ 1.37	\$ 1.42	(4%)
Adjusted basic earnings per share ⁽¹⁾	\$ 1.23	\$ 1.22	1%
Diluted earnings per share	\$ 1.37	\$ 1.42	(4%)
Adjusted diluted earnings per share ⁽¹⁾	\$ 1.23	\$ 1.22	1%
Dividends declared per share	\$ 0.615	\$ 0.575	7%
Total assets	\$ 44,964	\$ 46,435	(3%)
Total long-term liabilities	\$ 22,235	\$ 22,863	(3%)
Operating ratio ⁽²⁾	62.5%	65.7%	3.2-pts
Adjusted operating ratio ⁽¹⁾	66.3%	65.7%	(0.6-pts)
Free cash flow ⁽³⁾	\$ 539	\$ 573	(6%)

(1) See the section of this MD&A entitled *Adjusted performance measures* for an explanation of these non-GAAP measures.

(2) Operating ratio is defined as operating expenses as a percentage of revenues.

(3) See the section of this MD&A entitled *Liquidity and capital resources – Free cash flow* for an explanation of this non-GAAP measure.

Financial results

First quarter of 2021 compared to corresponding period in 2020

Net income for the first quarter of 2021 was \$974 million, a decrease of \$37 million, or 4%, and diluted earnings per share decreased by 4% to \$1.37, when compared to the same period in 2020.

Operating income for the quarter ended March 31, 2021 increased by \$112 million, or 9%, to \$1,327 million when compared to the same period in 2020.

The operating ratio, defined as operating expenses as a percentage of revenues, was 62.5% in the first quarter of 2021, compared to 65.7% in the first quarter of 2020, a 3.2-point improvement.

Revenues for the first quarter of 2021 of \$3,535 million were in line with the prior year. Record first quarter intermodal traffic and shipments of Canadian grain, and freight rate increases were offset by lower volumes for other commodity groups caused mainly by the ongoing effects of the COVID-19 pandemic, the negative translation impact of a stronger Canadian dollar and lower applicable fuel surcharge

Management's Discussion and Analysis

rates. The unfavorable revenue impact of the polar vortex in February 2021 was similar in magnitude to the unfavorable revenue impact of the illegal blockades in February 2020.

Operating expenses for the first quarter of 2021 were \$2,208 million compared to \$2,330 million for the same period in 2020. The decrease of \$122 million, or 5%, was mainly due to a recovery of the loss on assets held for sale resulting from the Company entering into an agreement for the sale of non-core lines as well as the positive translation impact of a stronger Canadian dollar; partly offset by higher incentive compensation and higher fuel costs.

Operating highlights

The following table lists key measures of the Company's operating performance, for the purpose of measuring the efficiency and effectiveness of train operations, for the three months ended March 31, 2021 and 2020:

	Three months ended March 31		
	2021	2020	% Change Fav (Unfav)
Gross ton miles (GTMs) (millions) ⁽¹⁾	120,780	113,979	6%
Train weight (tons) ⁽²⁾	9,421	9,134	3%
Train length (feet) ⁽³⁾	8,340	7,977	5%
Through network train speed (miles per hour) ⁽⁴⁾	18.1	18.2	(1%)
Fuel efficiency (US gallons of locomotive fuel consumed per 1,000 GTMs) ⁽⁵⁾	0.92	0.96	4%
Through dwell (entire railroad, hours) ⁽⁶⁾	8.3	8.3	—%
Car velocity (car miles per day) ⁽⁷⁾	187	178	5%

(1) GTMs: The workload performed by system trains in hauling freight or equipment. GTMs are calculated by multiplying the trailing weight by the distance the train moved. A larger number is an indicator of more traffic (and thus more revenue) being moved.

(2) Train weight: An efficiency measurement on how much tonnage each mainline train handles on average as it crosses the network. Calculated as the total of GTMs and divided by total train miles, this measure provides insight on how well each train was maximized in terms of its capacity to move traffic. This operating measure was formerly named Train productivity.

(3) Train length: An efficiency measurement on average trailing length of each mainline train on the network. Calculated as the total of car foot miles (the sum of car length multiplied by miles travelled for each trailing car) divided by total train miles, this measure provides insight on how well each train was maximized in terms of its capacity to move traffic.

(4) Through network train speed: A measure of the line-haul movement from origin to destination, including time at terminals. The average speed is calculated by dividing train miles by total hours operated, excluding yard and local trains, passenger trains, maintenance of way trains, and foreign trains. This measure represents the fluidity of trains on the network, with a higher value also indicating a more fluid network.

(5) Fuel efficiency: This measure represents how efficient the Company is in the generation and utilization of locomotive horsepower in freight train operations, with a lower number indicating improved performance. Fuel efficiency is defined as US gallons of locomotive fuel consumed per 1,000 GTMs.

(6) Through dwell: The average time a car resides within terminal boundaries expressed in hours. The measurement begins with a customer release, received interchange, or train arrival event and ends with a customer placement (actual or constructive), delivered or offered in interchange, or train departure event. This excludes stored, bad ordered, maintenance of way cars, or cars with dwell greater than 10 days. This measure represents the efficiency of handling cars within the terminal, with a lower value indicating higher performance.

(7) Car velocity: The average miles per day traveled by loaded and empty cars (including all active cars whether private, foreign or CN owned) on company lines. This measure represents the fluidity of cars on the network, calculated by the sum of miles each car traveled divided by the sum of all of the cars' active time, with a higher value indicating a smoother and more fluid operation. The methodology for calculating car velocity was updated in Q1 2021 to reflect more complete information. The prior year figures have been adjusted to conform to the current methodology.

Despite the impacts of the polar vortex occurring in February 2021, GTMs and operating performance improved in the first quarter of 2021 when compared to the same period in 2020, mainly due to the partial economic recovery and reduced impacts of the COVID-19 pandemic as well as the impacts of the illegal blockades in the first quarter of 2020. Car velocity, Train weight, Train length and Fuel efficiency improved due to a focus on efficiency and optimization of train service and size.

Non-GAAP measures

This MD&A makes reference to non-GAAP measures, including adjusted performance measures, constant currency, free cash flow and adjusted debt-to-adjusted earnings before interest, income taxes, depreciation and amortization (EBITDA) multiple, that do not have any standardized meaning prescribed by GAAP and therefore, may not be comparable to similar measures presented by other companies. From management's perspective, these non-GAAP measures are useful measures of performance and provide investors with supplementary information to assess the Company's results of operations and liquidity. These non-GAAP measures should not be considered in isolation or as a substitute for financial measures prepared in accordance with GAAP.

Management's Discussion and Analysis

For further details of these non-GAAP measures, including a reconciliation to the most directly comparable GAAP financial measures, refer to the sections of this MD&A entitled *Adjusted performance measures*, *Constant currency* and *Liquidity and capital resources*.

Adjusted performance measures

Management believes that adjusted net income, adjusted earnings per share, adjusted operating income and adjusted operating ratio are useful measures of performance that can facilitate period-to-period comparisons, as they exclude items that do not necessarily arise as part of CN's normal day-to-day operations and could distort the analysis of trends in business performance. Management uses adjusted performance measures, which exclude certain income and expense items in its results that management believes are not reflective of CN's underlying business operations, to set performance goals and as a means to measure CN's performance. The exclusion of such income and expense items in these measures does not, however, imply that these items are necessarily non-recurring. These measures do not have any standardized meaning prescribed by GAAP and therefore, may not be comparable to similar measures presented by other companies.

For the three months ended March 31, 2021, the Company's adjusted net income was \$872 million, or \$1.23 per diluted share, which excludes \$137 million, or \$102 million after-tax (\$0.14 per diluted share), resulting from the recovery of the loss on assets held for sale recorded in the second quarter of 2020, to reflect an agreement for the sale of certain non-core rail lines to a short line operator.

For the three months ended March 31, 2020, the Company's adjusted net income was \$870 million, or \$1.22 per diluted share, which excludes a current income tax recovery of \$141 million (\$0.20 per diluted share) resulting from the enactment of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, a U.S. tax-and-spending package aimed at providing additional stimulus to address the economic impact of the COVID-19 pandemic.

The following table provides a reconciliation of net income and earnings per share in accordance with GAAP, as reported for the three months ended March 31, 2021 and 2020, to the non-GAAP adjusted performance measures presented herein:

<i>In millions, except per share data</i>	Three months ended March 31	
	2021	2020
Net income	\$ 974	\$ 1,011
<i>Adjustments:</i>		
Recovery of loss on assets held for sale	(137)	—
Income tax expense (recovery) ⁽¹⁾	35	(141)
Adjusted net income	\$ 872	\$ 870
Basic earnings per share	\$ 1.37	\$ 1.42
<i>Impact of adjustments, per share</i>	(0.14)	(0.20)
Adjusted basic earnings per share	\$ 1.23	\$ 1.22
Diluted earnings per share	\$ 1.37	\$ 1.42
<i>Impact of adjustments, per share</i>	(0.14)	(0.20)
Adjusted diluted earnings per share	\$ 1.23	\$ 1.22

(1) Includes the tax impact of: (i) adjustments based on the nature of the item for tax purposes and related tax rates in the applicable jurisdiction; or (ii) tax law changes and rate enactments.

The following table provides a reconciliation of operating income and operating ratio in accordance with GAAP, as reported for the three months ended March 31, 2021 and 2020, to the non-GAAP adjusted performance measures presented herein:

<i>In millions, except percentage</i>	Three months ended March 31	
	2021	2020
Operating income	\$ 1,327	\$ 1,215
<i>Adjustment:</i> Recovery of loss on assets held for sale	(137)	—
Adjusted operating income	\$ 1,190	\$ 1,215
Operating ratio	62.5%	65.7%
<i>Impact of adjustment</i>	3.8-pts	—
Adjusted operating ratio	66.3%	65.7%

Management's Discussion and Analysis

Constant currency

Financial results at constant currency allow 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. Measures at constant currency are considered non-GAAP measures and do not have any standardized meaning prescribed by GAAP and therefore, may not be comparable to similar measures presented by other companies. Financial results at constant currency are obtained by translating the current period results denominated in US dollars at the foreign exchange rates of the comparable period in the prior year. The average foreign exchange rates were \$1.27 and \$1.34 per US\$1.00 for the three months ended March 31, 2021 and 2020, respectively.

On a constant currency basis, the Company's net income for the three months ended March 31, 2021 would have been higher by \$33 million (\$0.05 per diluted share).

Revenues

The following table provides the components of total revenues and freight revenues, as well as other key operating measures, for the three months ended March 31, 2021 and 2020:

<i>In millions, unless otherwise indicated</i>	Three months ended March 31			
	2021	2020	% Change	% Change at constant currency
Freight revenues	\$ 3,423	\$ 3,424	—%	3%
Other revenues	112	121	(7%)	(4%)
Total revenues	\$ 3,535	\$ 3,545	—%	3%
Freight revenues				
Petroleum and chemicals	\$ 661	\$ 791	(16%)	(13%)
Metals and minerals	368	405	(9%)	(5%)
Forest products	429	433	(1%)	3%
Coal	126	143	(12%)	(10%)
Grain and fertilizers	713	610	17%	20%
Intermodal	968	849	14%	16%
Automotive	158	193	(18%)	(14%)
Total freight revenues	\$ 3,423	\$ 3,424	—%	3%
Revenue ton miles (RTMs) (<i>millions</i>)	61,454	58,370	5%	5%
Freight revenue/RTM (<i>cents</i>)	5.57	5.87	(5%)	(2%)
Carloads (<i>thousands</i>)	1,431	1,335	7%	7%
Freight revenue/carload (\$)	2,392	2,565	(7%)	(4%)

Revenues for the first quarter of 2021 of \$3,535 million were in line with the prior year. Record first quarter intermodal traffic and shipments of Canadian grain, and freight rate increases were offset by lower volumes for other commodity groups caused mainly by the ongoing effects of the COVID-19 pandemic, the negative translation impact of a stronger Canadian dollar and lower applicable fuel surcharge rates. The unfavorable revenue impact of the polar vortex in February 2021 was similar in magnitude to the unfavorable revenue impact of the illegal blockades in February 2020.

Fuel surcharge revenues decreased by \$71 million in the first quarter of 2021 when compared to the same period in 2020, mainly as a result of lower applicable fuel surcharge rates.

RTMs, measuring the relative weight and distance of freight transported by the Company, increased by 5% in the first quarter of 2021 when compared to the same period in 2020. Freight revenue per RTM decreased by 5% in the first quarter of 2021 when compared to the same period in 2020, mainly driven by the negative translation impact of a stronger Canadian dollar, lower applicable fuel surcharge rates and an increase in the average length of haul; partly offset by freight rate increases.

Management's Discussion and Analysis

Petroleum and chemicals

	Three months ended March 31			
	2021	2020	% Change	% Change at constant currency
Revenues (<i>millions</i>)	\$ 661	\$ 791	(16%)	(13%)
RTMs (<i>millions</i>)	10,732	13,688	(22%)	(22%)
Revenue/RTM (<i>cents</i>)	6.16	5.78	7%	11%
Carloads (<i>thousands</i>)	150	173	(13%)	(13%)

Revenues for this commodity group decreased by \$130 million, or 16%, in the first quarter of 2021 when compared to the same period in 2020, mainly due to lower volumes of petroleum crude, refined petroleum products and chemicals and plastic products, as well as the negative translation impact of a stronger Canadian dollar and lower applicable fuel surcharge rates; partly offset by liquidated damages relating to volume commitments under customer contracts, as well as increased volumes of natural gas liquids including propane and butane.

Revenue per RTM increased by 7% in the first quarter of 2021 when compared to the same period in 2020, mainly due to liquidated damages relating to volume commitments under customer contracts and a decrease in the average length of haul; partly offset by the negative translation impact of a stronger Canadian dollar and lower applicable fuel surcharge rates.

Metals and minerals

	Three months ended March 31			
	2021	2020	% Change	% Change at constant currency
Revenues (<i>millions</i>)	\$ 368	\$ 405	(9%)	(5%)
RTMs (<i>millions</i>)	6,293	6,476	(3%)	(3%)
Revenue/RTM (<i>cents</i>)	5.85	6.25	(6%)	(2%)
Carloads (<i>thousands</i>)	223	241	(7%)	(7%)

Revenues for this commodity group decreased by \$37 million, or 9%, in the first quarter of 2021 when compared to the same period in 2020, mainly due to lower volumes of frac sand, fewer revenue generating moves of empty customer-owned cars as well as the negative translation impact of a stronger Canadian dollar and lower applicable fuel surcharge rates; partly offset by increased export volume of iron ore via the Gulf and higher shipments of semi-finished steel products.

Revenue per RTM decreased by 6% in the first quarter of 2021 when compared to the same period in 2020, mainly due to the negative translation impact of a stronger Canadian dollar, lower applicable fuel surcharge rates and an increase in the average length of haul.

Forest products

	Three months ended March 31			
	2021	2020	% Change	% Change at constant currency
Revenues (<i>millions</i>)	\$ 429	\$ 433	(1%)	3%
RTMs (<i>millions</i>)	6,670	6,322	6%	6%
Revenue/RTM (<i>cents</i>)	6.43	6.85	(6%)	(2%)
Carloads (<i>thousands</i>)	86	88	(2%)	(2%)

Revenues for this commodity group decreased by \$4 million, or 1%, in the first quarter of 2021 when compared to the same period in 2020, mainly due to the negative translation impact of a stronger Canadian dollar, lower applicable fuel surcharge rates and decreased volumes of paper and other fibers; partly offset by higher volumes of lumber and panels and freight rate increases.

Revenue per RTM decreased by 6% in the first quarter of 2021 when compared to the same period in 2020, mainly due to the negative translation impact of a stronger Canadian dollar, lower applicable fuel surcharge rates and an increase in the average length of haul; partly offset by freight rate increases.

Management's Discussion and Analysis

Coal

	Three months ended March 31			
	2021	2020	% Change	% Change at constant currency
Revenues (<i>millions</i>)	\$ 126	\$ 143	(12%)	(10%)
RTMs (<i>millions</i>)	4,026	4,078	(1%)	(1%)
Revenue/RTM (<i>cents</i>)	3.13	3.51	(11%)	(9%)
Carloads (<i>thousands</i>)	69	77	(10%)	(10%)

Revenues for this commodity group decreased by \$17 million, or 12%, in the first quarter of 2021 when compared to the same period in 2020, mainly due to lower Canadian export volumes of metallurgical and thermal coal via west coast ports and lower applicable fuel surcharge rates; partly offset by increased exports of U.S. thermal coal via the Gulf Coast.

Revenue per RTM decreased by 11% in the first quarter of 2021 when compared to the same period in 2020, mainly due to lower applicable fuel surcharge rates and an increase in the average length of haul.

Grain and fertilizers

	Three months ended March 31			
	2021	2020	% Change	% Change at constant currency
Revenues (<i>millions</i>)	\$ 713	\$ 610	17%	20%
RTMs (<i>millions</i>)	17,841	14,199	26%	26%
Revenue/RTM (<i>cents</i>)	4.00	4.30	(7%)	(5%)
Carloads (<i>thousands</i>)	176	150	17%	17%

Revenues for this commodity group increased by \$103 million, or 17%, in the first quarter of 2021 when compared to the same period in 2020, mainly due to record first quarter export volumes of Canadian grain and higher volumes of U.S. corn and soybean products, increased potash shipments, and freight rate increases; partly offset by the negative translation impact of a stronger Canadian dollar and lower applicable fuel surcharge rates.

Revenue per RTM decreased by 7% in the first quarter of 2021 when compared to the same period in 2020, mainly due to the negative translation impact of a stronger Canadian dollar, lower applicable fuel surcharge rates and an increase in the average length of haul; partly offset by freight rate increases.

Intermodal

	Three months ended March 31			
	2021	2020	% Change	% Change at constant currency
Revenues (<i>millions</i>)	\$ 968	\$ 849	14%	16%
RTMs (<i>millions</i>)	15,233	12,762	19%	19%
Revenue/RTM (<i>cents</i>)	6.35	6.65	(5%)	(3%)
Carloads (<i>thousands</i>)	676	548	23%	23%

Revenues for this commodity group increased by \$119 million, or 14%, in the first quarter of 2021 when compared to the same period in 2020, mainly due to record first quarter international container traffic via the ports of Vancouver and Halifax, record first quarter domestic intermodal volumes, more revenue generating moves of empty customer-owned containers and freight rate increases; partly offset by lower applicable fuel surcharge rates and the negative translation impact of a stronger Canadian dollar.

Revenue per RTM decreased by 5% in the first quarter of 2021 when compared to the same period in 2020, mainly due to lower applicable fuel surcharge rates, the negative translation impact of a stronger Canadian dollar and an increase in the average length of haul; partly offset by more revenue generating moves of empty customer-owned containers and freight rate increases.

Management's Discussion and Analysis

Automotive

	Three months ended March 31			
	2021	2020	% Change	% Change at constant currency
Revenues (<i>millions</i>)	\$ 158	\$ 193	(18%)	(14%)
RTMs (<i>millions</i>)	659	845	(22%)	(22%)
Revenue/RTM (<i>cents</i>)	23.98	22.84	5%	10%
Carloads (<i>thousands</i>)	51	58	(12%)	(12%)

Revenues for this commodity group decreased by \$35 million, or 18%, in the first quarter of 2021 when compared to the same period in 2020, mainly due to lower volumes of finished vehicles, the negative translation impact of a stronger Canadian dollar and lower applicable fuel surcharge rates.

Revenue per RTM increased by 5% in the first quarter of 2021 when compared to the same period in 2020, mainly due to a significant decrease in the average length of haul; partly offset by the negative translation impact of a stronger Canadian dollar and lower applicable fuel surcharge rates.

Other revenues

	Three months ended March 31			
	2021	2020	% Change	% Change at constant currency
Revenues (<i>millions</i>)	\$ 112	\$ 121	(7%)	(4%)

Other revenues decreased by \$9 million, or 7%, in the first quarter of 2021 when compared to the same period in 2020, mainly due to lower revenues from automotive logistics and the negative translation impact of a stronger Canadian dollar.

Operating expenses

Operating expenses for the first quarter of 2021 were \$2,208 million compared to \$2,330 million in the same period of 2020. The decrease of \$122 million, or 5%, was mainly due to a recovery of the loss on assets held for sale resulting from the Company entering into an agreement for the sale of non-core lines as well as the positive translation impact of a stronger Canadian dollar; partly offset by higher incentive compensation and higher fuel costs.

The following table provides the components of total operating expenses for the three months ended March 31, 2021 and 2020:

<i>In millions</i>	Three months ended March 31			
	2021	2020	% Change	% Change at constant currency
Labor and fringe benefits	\$ 785	\$ 743	(6%)	(8%)
Purchased services and material	549	578	5%	3%
Fuel	364	360	(1%)	(7%)
Depreciation and amortization	404	392	(3%)	(6%)
Equipment rents	89	105	15%	10%
Casualty and other	154	152	(1%)	(6%)
Recovery of loss on assets held for sale	(137)	—	N/A	N/A
Total operating expenses	\$ 2,208	\$ 2,330	5%	3%

Labor and fringe benefits

Labor and fringe benefits expense increased by \$42 million, or 6%, in the first quarter of 2021 when compared to the same period in 2020. The increase was mainly due to higher incentive compensation; partly offset by the positive translation impact of a stronger Canadian dollar.

Management's Discussion and Analysis

Purchased services and material

Purchased services and material expense decreased by \$29 million, or 5%, in the first quarter of 2021 when compared to the same period in 2020. The decrease was mainly due to the positive translation impact of a stronger Canadian dollar, lower accident costs as well as lower material costs.

Fuel

Fuel expense increased by \$4 million, or 1%, in the first quarter of 2021 when compared to the same period in 2020. The increase was mainly due to higher volumes and fuel prices; partly offset by the positive translation impact of a stronger Canadian dollar as well as fuel efficiency gains.

Depreciation and amortization

Depreciation and amortization expense increased by \$12 million, or 3%, in the first quarter of 2021 when compared to the same period in 2020. The increase was mainly due to a higher depreciable asset base; partly offset by the positive translation impact of a stronger Canadian dollar.

Equipment rents

Equipment rents expense decreased by \$16 million, or 15%, in the first quarter of 2021 when compared to the same period in 2020. The decrease was mainly due to higher locomotive horsepower-hour income and the positive translation impact of a stronger Canadian dollar.

Casualty and other

Casualty and other expense increased by \$2 million, or 1%, in the first quarter of 2021 when compared to the same period in 2020. The increase was mainly due to higher legal provisions; offset by lower incident costs.

Recovery of loss on assets held for sale

In the first quarter of 2021, the Company recovered \$137 million of the \$486 million loss on assets held for sale recorded in the second quarter of 2020, resulting from the Company entering into an agreement for the sale of non-core lines. See *Note 4 – Assets held for sale* for further information.

Other income and expenses

Interest expense

Interest expense was \$130 million for the three months ended March 31, 2021 compared to \$139 million for the same period in 2020. The decrease was mainly due to the positive translation impact of a stronger Canadian dollar and a lower average level of debt.

Other components of net periodic benefit income

Other components of net periodic benefit income was \$96 million for the three months ended March 31, 2021 compared to \$78 million for the same period in 2020. The increase was due to lower interest cost partly offset by higher amortization of net actuarial loss and lower expected return on assets. These effects primarily resulted from changes to discount rates as well as a decrease to the Company's expected long-term rate of return assumption in 2021.

Other income (loss)

Other loss was \$2 million for the three months ended March 31, 2021 compared to other income of \$11 million for the same period in 2020. The unfavorable variance of \$13 million is mainly due to higher foreign exchange gains in 2020.

Management's Discussion and Analysis

Income tax expense

Income tax expense was \$317 million for the three months ended March 31, 2021 compared to \$154 million for the same period in 2020. Income tax expense for the three months ended March 31, 2020 included a current income tax recovery of \$141 million resulting from the enactment of the CARES Act.

On March 27, 2020, the U.S. government enacted the CARES Act, which included corporate income tax measures allowing U.S. federal net operating losses (NOLs) arising in tax years 2018, 2019, and 2020 to be fully carried back to each of the five tax years preceding the tax year of the NOL. As a result of the CARES Act, the Company reclassified its 2019 deferred income tax asset of \$213 million on the NOL that arose in 2019, to a current income tax receivable and recorded a current income tax recovery of \$141 million in 2020 to reflect an amount recoverable at the higher U.S. federal corporate income tax rate of 35% applicable to pre-2018 tax years.

The effective tax rates for the three months ended March 31, 2021 was 24.6% compared to 13.2% for the same period in 2020. Excluding the aforementioned current income tax recovery, the effective tax rate for the three months ended March 31, 2020 was 25.3%. The decrease was mainly attributable to lower foreign exchange capital losses recorded in Other income in 2021 taxed at the lower capital gain inclusion rate, partly offset by lower excess tax benefits recorded in Income tax expense in 2021 resulting from the settlement of equity settled awards under the Company's stock-based compensation plan.

Summary of quarterly financial data

In millions, except per share data	2021 Quarter		2020 Quarters			2019 Quarters		
	First	Fourth	Third	Second	First	Fourth	Third	Second
Revenues	\$ 3,535	\$ 3,656	\$ 3,409	\$ 3,209	\$ 3,545	\$ 3,584	\$ 3,830	\$ 3,959
Operating income ⁽¹⁾	\$ 1,327	\$ 1,411	\$ 1,366	\$ 785	\$ 1,215	\$ 1,218	\$ 1,613	\$ 1,682
Net income ⁽¹⁾	\$ 974	\$ 1,021	\$ 985	\$ 545	\$ 1,011	\$ 873	\$ 1,195	\$ 1,362
Basic earnings per share ⁽¹⁾	\$ 1.37	\$ 1.44	\$ 1.39	\$ 0.77	\$ 1.42	\$ 1.22	\$ 1.66	\$ 1.89
Diluted earnings per share ⁽¹⁾	\$ 1.37	\$ 1.43	\$ 1.38	\$ 0.77	\$ 1.42	\$ 1.22	\$ 1.66	\$ 1.88
Dividends per share	\$ 0.6150	\$ 0.5750	\$ 0.5750	\$ 0.5750	\$ 0.5750	\$ 0.5375	\$ 0.5375	\$ 0.5375

(1) Certain quarters include items that management believes do not necessarily arise as part of CN's normal day-to-day operations and can distort the analysis of trends in business performance. See the section of this MD&A entitled *Adjusted performance measures* as well as the Company's 2020 Annual MD&A for additional information on these items.

Revenues generated by the Company during the year are influenced by seasonal weather conditions, general economic conditions, cyclical demand for rail transportation, competitive forces in the transportation marketplace and the effects of the COVID-19 pandemic beginning in the second quarter of 2020 (see the section entitled *Business risks* of the Company's 2020 Annual MD&A). Operating expenses reflect the impact of freight volumes, seasonal weather conditions, labor costs, fuel prices, and the Company's productivity initiatives. Fluctuations in the Canadian dollar relative to the US dollar have also affected the conversion of the Company's US dollar-denominated revenues and expenses and resulted in fluctuations in net income in the rolling eight quarters presented above.

Liquidity and capital resources

An analysis of the Company's liquidity and capital resources is provided in the section entitled *Liquidity and capital resources* of the Company's 2020 Annual MD&A. There were no significant changes during the first quarter of 2021, except as noted below.

As at March 31, 2021 and December 31, 2020, the Company had Cash and cash equivalents of \$518 million and \$569 million, respectively; Restricted cash and cash equivalents of \$529 million and \$531 million, respectively; and a working capital surplus of \$536 million and a deficit of \$172 million, respectively. There are currently no specific requirements relating to working capital other than in the normal course of business as discussed herein.

The Company expects cash from operations and its various sources of financing to be sufficient to meet its ongoing obligations.

Management's Discussion and Analysis

Available financing sources

Shelf prospectus and registration statement

Under its current shelf prospectus with Canadian securities regulators and registration statement with the United States Securities and Exchange Commission (SEC), the Company may issue up to \$6.0 billion of debt securities in the Canadian and U.S. capital markets over the 25 months from the filing date, February 11, 2020.

As at March 31, 2021, the remaining capacity of this shelf prospectus and registration statement was \$5.2 billion. Access to the Canadian and U.S. capital markets under the shelf prospectus and registration statement is dependent on market conditions.

Revolving credit facilities

On March 31, 2021, the Company's revolving credit facility agreement was amended, to extend the term of the credit facility by approximately two years and to adopt a sustainability linked loan structure whereby its applicable margins are adjusted upon achievement of certain sustainability targets, starting in 2022. The amended credit facility of \$2.0 billion consists of a \$1.0 billion tranche maturing on March 31, 2024 and a \$1.0 billion tranche maturing on March 31, 2026. As at March 31, 2021 and December 31, 2020, the Company had no outstanding borrowings under this revolving credit facility and there were no draws during the three months ended March 31, 2021.

The Company had a \$390 million one year revolving credit facility available for working capital and general corporate purposes, which expired on March 27, 2021. As at March 31, 2021 and December 31, 2020, the Company had no outstanding borrowings under this revolving credit facility and there were no draws during the three months ended March 31, 2021.

Non-revolving credit facility

The Company has a non-revolving term loan credit facility for financing or refinancing the purchase of equipment, where US\$300 million was available to be drawn upon through March 31, 2020 and US\$310 million through March 31, 2021. The equipment loans made under this facility have a tenor of 20 years, bear interest at a variable rate, are repayable in equal quarterly installments, are prepayable at any time without penalty, and are secured by rolling stock.

As at March 31, 2021, the Company had outstanding borrowings of US\$595 million (\$747 million) and had no amount available under this non-revolving term loan facility. As at December 31, 2020, the Company had outstanding borrowings of US\$289 million (\$368 million) and had US\$310 million available under this non-revolving term loan facility.

Commercial paper

The Company's commercial paper programs are backstopped by the Company's revolving credit facility. The maximum aggregate principal amount of commercial paper that could be issued is \$2.0 billion, or the US dollar equivalent, on a combined basis.

As at March 31, 2021 and December 31, 2020, the Company had total commercial paper borrowings of US\$50 million (\$63 million) and US\$44 million (\$56 million), respectively, presented in Current portion of long-term debt on the Consolidated Balance Sheets.

Accounts receivable securitization program

The Company has an agreement, expiring on February 1, 2023, to sell an undivided co-ownership interest in a revolving pool of accounts receivable to unrelated trusts for maximum cash proceeds of \$450 million.

As at March 31, 2021, and December 31, 2020, the Company had no borrowings under the accounts receivable securitization program and there were no activities for the three months ended March 31, 2021.

Bilateral letter of credit facilities

The Company has a series of committed and uncommitted bilateral letter of credit facility agreements. On March 31, 2021, the Company extended the maturity date of the committed bilateral letter of credit facility agreements to April 28, 2024.

As at March 31, 2021, the Company had outstanding letters of credit of \$420 million (\$421 million as at December 31, 2020) under the committed facilities from a total available amount of \$490 million (\$492 million as at December 31, 2020) and \$165 million (\$165 million as at December 31, 2020) under the uncommitted facilities.

As at March 31, 2021, included in Restricted cash and cash equivalents were \$422 million (\$424 million as at December 31, 2020) and \$100 million (\$100 million as at December 31, 2020) which were pledged as collateral under the committed and uncommitted bilateral letter of credit facilities, respectively.

Additional information relating to the Company's financing sources is provided in the section entitled *Liquidity and capital resources – Available financing sources* of the Company's 2020 Annual MD&A as well as *Note 8 – Financing activities* to the Company's unaudited Interim Consolidated Financial Statements.

Management's Discussion and Analysis

Credit ratings

The Company's long-term debt and commercial paper credit ratings remain unchanged from those described in the section entitled *Liquidity and capital resources – Credit ratings* of the Company's 2020 Annual MD&A.

As at April 20, 2021, subsequent to the Company's announcement regarding the proposal to combine with KCS, ratings agencies took the following actions:

- DBRS Morningstar placed CN's ratings under review with negative implications.
- Moody's Investor Service placed CN's ratings on review for downgrade.
- Standard & Poor's reported that the transaction would have decidedly negative credit implications.

These actions reflected expectations of increases in CN's debt to support the proposed combination with KCS. The Company does not expect the actions by the ratings agencies to have a significant impact on its liquidity or future flexibility to access additional liquidity.

Cash flows

The following table provides the cash flows for the three months ended March 31, 2021 and 2020:

<i>In millions</i>	Three months ended March 31		
	2021	2020	Variance
Net cash provided by operating activities	\$ 952	\$ 1,180	\$ (228)
Net cash used in investing activities	(413)	(607)	194
Net cash used in financing activities	(592)	(151)	(441)
Effect of foreign exchange fluctuations on cash, cash equivalents, restricted cash, and restricted cash equivalents	—	3	(3)
<i>Net increase (decrease) in cash, cash equivalents, restricted cash, and restricted cash equivalents</i>	(53)	425	(478)
Cash, cash equivalents, restricted cash, and restricted cash equivalents, beginning of period	1,100	588	512
<i>Cash, cash equivalents, restricted cash, and restricted cash equivalents, end of period</i>	\$ 1,047	\$ 1,013	\$ 34

Free cash flow

Management believes that free cash flow is a useful measure of liquidity as it demonstrates the Company's ability to generate cash for debt obligations and for discretionary uses such as payment of dividends, share repurchases, and strategic opportunities. The Company defines its free cash flow measure as the difference between net cash provided by operating activities and net cash used in investing activities, adjusted for the impact of business acquisitions, if any. Free cash flow does not have any standardized meaning prescribed by GAAP and therefore, may not be comparable to similar measures presented by other companies.

The following table provides a reconciliation of net cash provided by operating activities in accordance with GAAP, as reported for the three months ended March 31, 2021 and 2020, to the non-GAAP free cash flow presented herein:

<i>In millions</i>	Three months ended March 31	
	2021	2020
Net cash provided by operating activities	\$ 952	\$ 1,180
Net cash used in investing activities	(413)	(607)
<i>Free cash flow</i>	\$ 539	\$ 573

Operating activities

Net cash provided by operating activities decreased by \$228 million in the first quarter of 2021 when compared to the same period in 2020, mainly due to lower earnings excluding non-cash items and lower income tax instalment payments in 2020, partly offset by favorable changes in working capital.

Pension contributions

The Company's contributions to its various defined benefit pension plans are made in accordance with the applicable legislation in Canada and the U.S. and such contributions follow minimum and maximum thresholds as determined by actuarial valuations.

Management's Discussion and Analysis

Actuarial valuations are generally required on an annual basis for all Canadian defined benefit pension plans, or when deemed appropriate by the Office of the Superintendent of Financial Institutions (OSFI). Actuarial valuations are also required annually for the Company's U.S. qualified defined benefit pension plans. For accounting purposes, the funded status is calculated under GAAP. For funding purposes, the funded status of the Company's Canadian registered defined benefit pension plans is calculated under going concern and solvency scenarios as prescribed under federal pension legislation and is subject to guidance issued by the Canadian Institute of Actuaries and OSFI. The federal pension legislation requires funding deficits to be paid over a number of years. Alternatively, a letter of credit can be subscribed to fulfill solvency deficit payments.

In November 2019, the OSFI proposed revisions to its Instruction guide for the Preparation of Actuarial Reports for Defined Benefit Pension Plans ("Guide"). In November 2020, the OSFI issued its revised Guide and informed stakeholders that some of the proposed revisions to the Guide affecting solvency valuations have been postponed until further review is conducted. If those proposed revisions were to be adopted as originally issued, they would affect actuarial valuations by reducing the solvency status of the Company's defined benefit pension plans, and could negatively impact the Company's pension funding requirements.

The Company's most recently filed actuarial valuations for funding purposes for its Canadian registered defined benefit pension plans conducted as at December 31, 2019 indicated a funding excess on a going concern basis of approximately \$3.5 billion and a funding excess on a solvency basis of approximately \$0.6 billion calculated using the three-year average of the plans' hypothetical wind-up ratio. The Company's next actuarial valuations for funding purposes for its Canadian registered pension plans required as at December 31, 2020 will be performed in 2021. These actuarial valuations are expected to identify a funding excess on a going concern basis of approximately \$3.4 billion, while on a solvency basis a funding excess of \$0.4 billion is expected.

Pension contributions for the three months ended March 31, 2021 and 2020 of \$73 million and \$68 million, respectively, primarily represent contributions to the CN Pension Plan, for the current service cost as determined under the Company's applicable actuarial valuations for funding purposes. In 2021, the Company now expects to make total cash contributions of approximately \$140 million for all of its pension plans.

Adverse changes to the assumptions used to calculate the Company's funding status, particularly the discount rate, as well as changes to existing federal pension legislation or regulator guidance could significantly impact the Company's future pension contributions.

Additional information relating to the pension plans is provided in *Note 17 – Pensions and other postretirement benefits* to the Company's 2020 Annual Consolidated Financial Statements.

Income tax payments and refunds

Net income tax payments for the three months ended March 31, 2021 were \$188 million compared to net income tax refunds of \$9 million, for the same period in 2020. In 2020, the Company did not make any instalment payments in Canada until September as 2019 instalment overpayments were applied to the 2020 year and 2020 instalment payments were deferred in Canada under the various COVID-19 pandemic measures implemented by Canadian authorities. For 2021, the Company's net income tax payments are now expected to be approximately \$850 million.

Investing activities

Net cash used in investing activities decreased by \$194 million in the first quarter of 2021 when compared to the same period in 2020, mainly due to lower property additions.

Property additions

The following table provides the property additions for the three months ended March 31, 2021 and 2020:

<i>In millions</i>	Three months ended March 31	
	2021	2020
Track and roadway	\$ 240	\$ 278
Rolling stock	75	208
Buildings	9	5
Information technology	50	69
Other	38	43
Property additions	\$ 412	\$ 603

2021 Capital expenditure program

For 2021, the Company continues to expect to invest approximately \$3.0 billion in its capital program. Additional details of the Company's 2021 capital program are provided in the section entitled *Liquidity and capital resources – Cash flows* of the Company's 2020 Annual MD&A.

Management's Discussion and Analysis

Financing activities

Net cash used in financing activities increased by \$441 million in the first quarter of 2021 when compared to the same period in 2020, primarily driven by lower net issuance of debt; partly offset by lower repurchases of common shares.

Debt financing activities

Debt financing activities in the first quarter of 2021 included the following:

- On January 18, 2021, early redemption of \$250 million 2.75% Notes due 2021;
- On March 31, 2021, issuance of US\$310 million (\$389 million) equipment loan under the non-revolving credit facility; and
- Net issuance of commercial paper of \$13 million.

Debt financing activities in the first quarter of 2020 included the following:

- On February 3, 2020, repayment of US\$300 million (\$397 million) 2.40% Notes due 2020 upon maturity;
- On February 3, 2020, issuance of US\$300 million (\$397 million) equipment loan under the non-revolving credit facility;
- Net issuance of commercial paper of \$304 million;
- Proceeds from borrowings under the accounts receivable securitization program of \$450 million;
- Repayment of borrowings under the accounts receivable securitization program of \$200 million;
- Proceeds from borrowings under revolving credit facility agreement of \$100 million; and
- Repayment of finance leases of \$9 million.

Additional information relating to the Company's outstanding debt securities is provided in *Note 15 – Debt* to the Company's 2020 Annual Consolidated Financial Statements.

Repurchase of common shares

The Company may repurchase its common shares pursuant to a Normal Course Issuer Bid (NCIB) at prevailing market prices plus brokerage fees, or such other prices as may be permitted by the Toronto Stock Exchange. After pausing its share repurchases at the end of March 2020 due to the economic circumstances resulting from the COVID-19 pandemic, the Company resumed its share repurchases in the first quarter of 2021 under the current NCIB. The current NCIB allows the Company to repurchase up to 14.0 million common shares between February 1, 2021 and January 31, 2022. As at March 31, 2021, the Company had repurchased 2.1 million common shares for \$291 million under its current NCIB.

The Company repurchased 2.0 million common shares under its previous NCIB effective between February 1, 2020 and January 31, 2021, which allowed for the repurchase of up to 16.0 million common shares.

As a result of the proposal to combine with KCS, the Company will pause share repurchases and will reassess on an ongoing basis.

The following table provides the information related to the share repurchases for the three months ended March 31, 2021 and 2020:

<i>In millions, except per share data</i>	Three months ended March 31	
	2021	2020
Number of common shares repurchased	2.1	3.3
Weighted-average price per share ⁽¹⁾	\$ 140.70	\$ 116.97
Amount of repurchase ^{(1) (2)}	\$ 291	\$ 379

(1) Includes brokerage fees.

(2) Includes settlements in subsequent periods.

Share Trusts

The Company's Employee Benefit Plan Trusts ("Share Trusts") purchase CN common shares on the open market, which are used to deliver common shares under the Share Units Plan and the Employee Share Investment Plan (ESIP). Shares purchased by the Share Trusts are retained until the Company instructs the trustee to transfer shares to participants of the Share Units Plan or the ESIP. Additional information relating to Share Trusts is provided in *Note 18 – Share capital* to the Company's 2020 Annual Consolidated Financial Statements.

Dividends paid

The Company paid quarterly dividends of \$0.615 per share amounting to \$436 million in the first quarter of 2021, compared to \$409 million, at the quarterly rate of \$0.575 per share for the same period in 2020.

Management's Discussion and Analysis

Contractual obligations

In the normal course of business, the Company incurs contractual obligations. The following table sets forth the Company's contractual obligations for the following items as at March 31, 2021:

<i>In millions</i>	Total	2021	2022	2023	2024	2025	2026 & thereafter
Debt obligations ⁽¹⁾	\$ 12,857	\$ 598	\$ 345	\$ 221	\$ 473	\$ 383	\$ 10,837
Interest on debt obligations	9,590	343	498	484	476	463	7,326
Finance lease obligations ⁽²⁾	72	68	1	—	—	—	3
Operating lease obligations ⁽³⁾	429	85	81	60	42	37	124
Purchase obligations ⁽⁴⁾	1,278	933	149	85	56	54	1
Other long-term liabilities ⁽⁵⁾	696	66	55	47	40	45	443
Total contractual obligations	\$ 24,922	\$ 2,093	\$ 1,129	\$ 897	\$ 1,087	\$ 982	\$ 18,734

(1) Presented net of unamortized discounts and debt issuance costs and excludes finance lease obligations.

(2) Includes \$1 million of imputed interest.

(3) Includes \$70 million related to renewal options reasonably certain to be exercised and \$42 million of imputed interest.

(4) Includes fixed and variable commitments for information technology services and licenses, rail, wheels, engineering services, locomotives, railroad ties, rail cars as well as other equipment and services. Costs of variable commitments were estimated using forecasted prices and volumes.

(5) Includes expected payments for workers' compensation, postretirement benefits other than pensions, net unrecognized tax benefits, environmental liabilities and pension obligations that have been classified as contractual settlement agreements.

Adjusted debt-to-adjusted EBITDA multiple

Management believes that the adjusted debt-to-adjusted EBITDA multiple is a useful credit measure because it reflects the Company's ability to service its debt and other long-term obligations. The Company calculates the adjusted debt-to-adjusted EBITDA multiple as adjusted debt divided by adjusted EBITDA. These measures do not have any standardized meaning prescribed by GAAP and therefore, may not be comparable to similar measures presented by other companies.

The following table provides a reconciliation of debt and net income in accordance with GAAP, reported as at and for the twelve months ended March 31, 2021 and 2020, to the adjusted measures presented herein, which have been used to calculate the non-GAAP adjusted debt-to-adjusted EBITDA multiple:

<i>In millions, unless otherwise indicated</i>	<i>As at and for the twelve months ended March 31,</i>		2021	2020
Debt		\$	12,928	\$ 15,287
<i>Adjustments:</i>				
Operating lease liabilities, including current portion			387	493
Pension plans in deficiency			548	527
Adjusted debt		\$	13,863	\$ 16,307
Net income		\$	3,525	\$ 4,441
Interest expense			545	546
Income tax expense			1,145	1,122
Depreciation and amortization			1,601	1,514
EBITDA			6,816	7,623
<i>Adjustments:</i>				
Loss on assets held for sale			349	—
Other loss (income)			7	(62)
Other components of net periodic benefit income			(333)	(319)
Operating lease cost			138	166
Adjusted EBITDA		\$	6,977	\$ 7,408
Adjusted debt-to-adjusted EBITDA multiple (times)			1.99	2.20

All forward-looking statements discussed in this section are subject to risks and uncertainties and are based on assumptions about events and developments that may not materialize or that may be offset entirely or partially by other events and developments. See the section of this MD&A entitled *Forward-looking statements* for a discussion of assumptions and risk factors affecting such forward-looking statements.

Management's Discussion and Analysis

Off balance sheet arrangements

Guarantees and indemnifications

In the normal course of business, the Company enters into agreements that may involve providing guarantees or indemnifications to third parties and others, which may extend beyond the term of the agreements. These include, but are not limited to, standby letters of credit, surety and other bonds, and indemnifications that are customary for the type of transaction or for the railway business. As at March 31, 2021, the Company has not recorded a liability with respect to guarantees and indemnifications. Additional information relating to guarantees and indemnifications is provided in *Note 13 – Major commitments and contingencies* to the Company's unaudited Interim Consolidated Financial Statements.

Outstanding share data

As at April 26, 2021, the Company had 708.0 million common shares and 4.0 million stock options outstanding.

Financial instruments

Risk management

In the normal course of business, the Company is exposed to various risks from its use of financial instruments, such as credit risk, liquidity risk, and market risks which include foreign currency risk, interest rate risk and commodity price risk. A description of these risks and how the Company manages them, is provided in the section entitled *Financial instruments* of the Company's 2020 Annual MD&A.

Derivative financial instruments

As at March 31, 2021, the Company had outstanding foreign exchange forward contracts with a notional value of US\$628 million (US\$397 million as at December 31, 2020). For the three months ended March 31, 2021 and 2020, the Company recorded a loss of \$13 million and a gain of \$126 million, respectively, related to foreign exchange forward contracts. These gains and losses were largely offset by the re-measurement of US dollar-denominated monetary assets and liabilities recorded in Other income.

As at March 31, 2021, the fair value of outstanding foreign exchange forward contracts included in Other current assets and Accounts payable and other was \$nil and \$11 million, respectively (\$nil and \$18 million, respectively, as at December 31, 2020).

Fair value of financial instruments

As at March 31, 2021, the Company's debt, excluding finance leases, had a carrying amount of \$12,857 million (\$12,832 million as at December 31, 2020) and a fair value of \$14,658 million (\$16,046 million as at December 31, 2020).

Additional information relating to financial instruments is provided in *Note 14 – Financial instruments* to the Company's unaudited Interim Consolidated Financial Statements.

Management's Discussion and Analysis

Recent accounting pronouncements

The following recent Accounting Standards Update (ASU) issued by the Financial Accounting Standards Board (FASB) came into effect in 2020, was amended in 2021 and has not been adopted by the Company:

ASU 2020-04 Reference rate reform (Topic 848): Facilitation of the effects of reference rate reform on financial reporting and related amendments

London Interbank Offered Rate (LIBOR) is a benchmark interest rate referenced in a variety of agreements that are used by all types of entities. At the end of 2021, banks will no longer be required to report information that is used to determine LIBOR. As a result, LIBOR could be discontinued. Other interest rates used globally could also be discontinued for similar reasons.

The ASU provides optional expedients and exceptions for applying generally accepted accounting principles to transactions affected by reference rate reform if certain criteria are met. These transactions include contract modifications, hedging relationships, and sale or transfer of debt securities classified as held-to-maturity.

The ASU was effective starting on March 12, 2020, and is available to be adopted on a prospective basis no later than December 31, 2022, when the reference rate replacement activity is expected to be completed. The Company currently has outstanding loans and finance lease obligations referencing LIBOR totaling approximately US\$630 million that would be affected by the provisions of this ASU. The Company is evaluating the effects that the adoption of the ASU will have on its Consolidated Financial Statements and related disclosures, and whether it will elect to apply any of the optional expedients and exceptions provided in the ASU.

Other recently issued ASUs required to be applied for periods beginning on or after March 31, 2021 have been evaluated by the Company and are not expected to have a significant impact on the Company's Consolidated Financial Statements.

Critical accounting estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates, judgments and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements. On an ongoing basis, management reviews its estimates based upon available information. Actual results could differ from these estimates. The Company's policies for income taxes, capital expenditures, depreciation, pensions and other postretirement benefits, personal injury and other claims, and environmental matters, require management's more significant judgments and estimates in the preparation of the Company's consolidated financial statements and, as such, are considered to be critical. Reference is made to the section entitled *Critical accounting estimates* of the Company's 2020 Annual MD&A for a detailed description of the Company's critical accounting estimates. There have not been any material changes to these estimates in the first quarter of 2021, except as disclosed in the section of this MD&A entitled *Strategy overview - Assets held for sale*.

Management discusses the development and selection of the Company's critical accounting policies, including the underlying estimates and assumptions, with the Audit Committee of the Company's Board of Directors. The Audit Committee has reviewed the Company's related disclosures.

Business risks

In the normal course of business, the Company is exposed to various business risks and uncertainties that can have an effect on the Company's results of operations, financial position, or liquidity. While some exposures may be reduced by the Company's risk management strategies, many risks are driven by external factors beyond the Company's control or are of a nature which cannot be eliminated.

Reference is made to the section entitled *Business risks* of the Company's 2020 Annual MD&A for a detailed description of such key areas of business risks and uncertainties with respect to: Pandemic risk and economic downturn, Competition, Environmental matters, Personal injury and other legal claims, Labor negotiations, Regulation, Economic conditions, Pension funding volatility, Reliance on technology and related cybersecurity risk, Trade restrictions, Terrorism and international conflicts, Customer credit risk, Liquidity, Supplier concentration, Availability of qualified personnel, Fuel costs, Foreign exchange, Interest rates, Transportation network disruptions, Severe weather and Climate change, which is incorporated herein by reference. Additional risks and uncertainties not currently known to management or that may currently not be considered material by management, could nevertheless also have an adverse effect on the Company's business.

Management's Discussion and Analysis

The following are material changes to the risks described in the Company's 2020 Annual MD&A, as well as an update on labor workforce and regulatory matters.

Proposal to combine with KCS

CN is currently pursuing a proposal to acquire KCS. KCS has engaged with CN with respect to such proposal, but the ultimate outcome of any possible transaction between CN and KCS remains uncertain, including the possibility that CN and KCS will not reach an agreement with respect to a transaction or that the terms of any definitive agreement with KCS will be materially different than those described herein. In addition, if a definitive agreement with KCS is signed, conditions to closing the transaction may not be satisfied on the anticipated schedule or at all.

In the event the combination is completed, CN may be unable to achieve the expected synergies and operating efficiencies within the expected time frames or at all and may not be able to successfully integrate KCS' operations with those of CN. CN would also have to use a significant portion of its cash flow to service and repay the indebtedness CN expects to incur in connection with the proposed transaction with KCS.

No assurance can be given that any of the above risks will not materially adversely affect CN's results of operations or its competitive and financial position.

Labor workforce and negotiations

As at March 31, 2021, CN employed a total of 17,941 employees in Canada, of which 12,780, or 71%, were unionized employees, and 6,636 employees in the U.S., of which 5,516, or 83%, were unionized employees. The Company's relationships with its unionized workforce are governed by, amongst other items, collective bargaining agreements which are negotiated from time to time. Disputes relating to the renewal of collective bargaining agreements could potentially result in strikes, slowdowns and loss of business. Future labor agreements or renegotiated agreements could increase labor and fringe benefits and related expenses. There can be no assurance that the Company will be able to renew and have its collective bargaining agreements ratified without any strikes or lockouts or that the resolution of these collective bargaining negotiations will not have a material adverse effect on the Company's results of operations or financial position.

Regulation

Economic regulation - U.S.

The *Passenger Rail Investment and Improvement Act of 2008* (PRIIA) required Amtrak and the Federal Railroad Administration (FRA) to jointly promulgate the PRIIA performance standards. The prior metrics were vacated and the arbitration provision in the statute was severed by the U.S. Court of Appeals for the District of Columbia. On November 16, 2020, the FRA adopted metrics for measuring performance, which included non-binding dispute resolution for schedules that are disputed. In April 2021, CN provided notice to Amtrak concerning which passenger schedules are ready to be certified and which are to be disputed. As part of PRIIA, U.S. Congress authorized the STB to investigate any railroad over whose track Amtrak operates that fails to meet the performance standards under PRIIA and the STB is authorized to assess damages against the host railroad.

On April 6, 2021, the STB adopted final rules requiring Class I railroads to include certain information relating to demurrage invoices.

On April 19, 2021, the FRA granted the Company's request for an extension of the Company's automated track inspection test program to evaluate the optimal combination of visual and automated track inspections. The Company previously obtained approval from FRA to conduct the test program in April 2020. The test program has been extended to February 19, 2022.

No assurance can be given that these and any other current or future regulatory or legislative initiatives by the U.S. federal government and agencies will not materially adversely affect the Company's results of operations or its competitive and financial position.

Management's Discussion and Analysis

Safety regulation - Canada

On February 22, 2021, the Minister approved revisions to the Rules Respecting Key Trains and Key Routes proposed by the Canadian railway industry in answer to the request to do so issued on April 1, 2020. The speed of key trains carrying dangerous goods is based on cold temperature conditions and depends on the safety measures implemented by railway companies to be detailed into a Winter Operation Risk Mitigation Plan. The maximum speed also varies based on the type of railway signal and traffic control systems present on the railway networks, which take into account the substantial investments made to equip main line tracks with automated signaling technology, on which the vast majority of CN's traffic is handled. In addition, the new rules require railways to have in place a maintenance and inspection plan for permanent rail joints and temporary rail joints. Considering that speed restrictions applicable to a single category of trains nevertheless affect the speed of all trains operating on a rail network, the revised rules are expected to allow CN to maintain normal speed operations unless the conditions require speed restrictions in the interest of safety. The revisions come into force on August 22, 2021.

On March 10, 2021, the Minister issued two orders respecting railway uncontrolled movements. The first order imposes special interim procedures aimed at reducing the risks of uncontrolled movements. The second order requires the Canadian railway industry to revise existing rules to incorporate design and performance parameters for locomotives with roll-away protection, to develop a precise definition of attended versus unattended equipment as well as incorporate requirements on the use of roll-away protection to reduce the risks of an uncontrolled movement. The revisions must be filed with the Minister by March 10, 2022.

No assurance can be given that these and any other current or future regulatory or legislative initiatives by the Canadian federal government and agencies will not materially adversely affect the Company's results of operations or its competitive and financial position.

Safety regulation - U.S.

On February 18, 2020, the FRA issued a final rule that requires each Class I railroad and certain shortline railroads to develop a Railroad Risk Reduction Program in a written plan that will be reviewed and approved by the FRA and will be subject to audit. Written plans must be submitted by August 2021. Rail labor challenged aspects of the FRA rule in the United States Court of Appeals for the DC Circuit, including protection from discovery for information compiled by railroads for purposes of implementing the rule. Oral argument was held on March 9, 2021.

On February 23, 2021, the United States Court of Appeals for the Ninth Circuit vacated an FRA order from May 2019, which had withdrawn an agency proposed rule relating to crew size. On April 9, 2021, the Association of American Railroads sought rehearing from the court. In a separate matter, a federal court in Illinois previously concluded that the Illinois crew size statute was preempted under the FRA's May 2019 order, and the Illinois Commerce Commission appealed that decision. That appeal has been stayed pending resolution of the Ninth Circuit case.

On March 1, 2021, the FRA implemented an emergency order governing the use of face masks in railroad operations.

No assurance can be given that these and any other current or future regulatory or legislative initiatives by the U.S. federal government and agencies will not materially adversely affect the Company's results of operations or its competitive and financial position.

Controls and procedures

The Company's Chief Executive Officer and its Chief Financial Officer, after evaluating the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of March 31, 2021, have concluded that the Company's disclosure controls and procedures were effective.

During the first quarter ended March 31, 2021, there was no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.