

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.

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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

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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