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2020 QUARTERLY REVIEW FIRST QUARTER

Celebrating 100 years

CN Delivers Solid First Quarter Results Despite Network Disruptions

Railroad demonstrates resiliency with solid performance amidst month-long illegal blockades and impacts of the COVID-19 pandemic

MONTREAL, April 27, 2020 — CN (TSX: CNR) (NYSE: CNI) today reported its financial and operating results for the first quarter ended March 31, 2020.

"CN's team of dedicated railroaders has demonstrated the Company's ability to overcome difficult situations and keep the economy moving," said JJ Ruest, president and chief executive officer of CN. "I am very proud of how we recovered quickly in March from the service disruptions in February. Our network is very fluid, and we are continuing the temporary right-sizing of our resources to match the weaker demand caused by the global recession. We are committed to providing long-term shareholder value by delivering on our strategic capacity investments for growth and by deploying technological innovations."

Financial results highlights

First-quarter 2020 compared to first-quarter 2019

- Revenues of C$3,545 million remained flat.
- Diluted earnings per share (EPS) of C$1.42, an increase of 31 per cent, and adjusted diluted EPS of C$1.22, an increase of four per cent. (1)
- Operating ratio of 65.7 per cent, an improvement of 3.8 points (or 1.5 points on an adjusted basis). (1)
- Operating income of C$1,215 million, an increase of 13 per cent (or four per cent on an adjusted basis). (1)

Revised 2020 financial outlook, liquidity, and scenario analysis (2)

The COVID-19 pandemic is having an unprecedented and extraordinary impact on the economy. The economic outlook, and therefore overall demand for transportation services, are highly correlated with the duration of containment measures and the impacts on businesses and consumers, which at this point remain uncertain. As a result, CN is withdrawing its 2020 financial guidance and 3-year targets provided at the 2019 Investor Day.

CN has a solid track record of resiliency in periods of economic weakness. The Company's strong investment grade credit rating, top-tier amongst all companies and the best in the rail industry, has once again proven its strategic value, providing CN with robust low-cost liquidity. The Company will continue to pause share repurchases in these economic circumstances and will reassess on an ongoing basis.

While it is clear that no one can predict the ultimate impact of the current global economic environment, based on what we know today, the Company is still working to generate a minimum of approximately C$2.5 billion of free cash flow. (1)

CN is committed to maintaining its previously announced 2020 dividend increase of 7%.

First-quarter 2020 revenues, traffic volumes and expenses

Revenues for the first quarter of 2020 of C$3,545 million remained flat when compared to the same period in 2019. The inclusion of TransX within the domestic market of the intermodal commodity group, freight rate increases, higher volumes of petroleum crude and increased shipments of Canadian grain, were offset by lower volumes across all other commodity groups mostly due to the impacts of the illegal blockades in February 2020 and the COVID-19 pandemic in late March.

RTMs, measuring the relative weight and distance of freight transported by CN, declined by one per cent from the year-earlier period. Freight revenue per RTM increased by two per cent over the year-earlier period, mainly due to the inclusion of TransX in the intermodal commodity group and freight rate increases.

Operating expenses for the first quarter decreased by five per cent to C$2,330 million, mainly driven by lower labor costs, depreciation expense and fuel expense.

(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.

(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. 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 by their nature address matters that are, to different degrees, uncertain, such as statements about the potential impacts of the COVID-19 pandemic on our business operations, financial results and financial position and on the global supply chain. Forward-looking statements may be identified by the use of terminology such as "believes," "expects," "anticipates," "assumes," "outlook," "plans," "targets," or other similar words.

2020 assumptions

CN's 2020 key assumptions provided in our 2019 year-end earnings news release of January 28, 2020 are withdrawn and can no longer be relied upon given the high degree of business uncertainty caused by the COVID-19 pandemic, its severity, magnitude and duration, including impacts of the pandemic and of businesses' and governments' responses to the pandemic on our business, financial position, results of operations and liquidity. In 2020, CN now plans to invest approximately C$2.9 billion in its capital program, of which C$1.6 billion is still targeted toward track and railway infrastructure maintenance. A reduction of C$0.2 billion in CN's capital program reflecting lower volumes was partly offset by approximately C$0.1 billion due to the negative impact of foreign exchange, resulting in a net C$0.1 billion reduction.

Forward-looking statements are not guarantees of future performance and involve risks, uncertainties and other factors which may cause the actual results or performance of the Company to be materially different from the outlook or any future results or performance 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 effects of a pandemic outbreak of a contagious illness; 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; 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 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.

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.

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.

CN is a true backbone of the economy transporting more than C$250 billion worth of goods annually for a wide range of business sectors, ranging from resource products to manufactured products to consumer goods, across a rail network of approximately 20,000 route-miles spanning Canada and mid-America. CN – Canadian National Railway Company, along with its operating railway subsidiaries – serves the cities and ports of Vancouver, Prince Rupert, B.C., Montreal, Halifax, New Orleans, and Mobile, Ala., and the metropolitan areas of Toronto, Edmonton, Winnipeg, Calgary, Chicago, Memphis, Detroit, Duluth, Minn./Superior, Wis., and Jackson, Miss., with connections to all points in North America. For more information about CN, visit the Company's website at www.cn.ca.

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Selected Railroad Statistics – unaudited

	Three months ended March 31	
	2020	2019
Financial measures		
Key financial performance indicators [1]		
Total revenues *($ millions)*	**3,545**	3,544
Freight revenues *($ millions)*	**3,424**	3,413
Operating income *($ millions)*	**1,215**	1,080
Adjusted operating income *($ millions)* [2]	**1,215**	1,164
Net income *($ millions)*	**1,011**	786
Adjusted net income *($ millions)* [2]	**870**	848
Diluted earnings per share *($)*	**1.42**	1.08
Adjusted diluted earnings per share *($)* [2]	**1.22**	1.17
Free cash flow *($ millions)* [2]	**573**	286
Gross property additions *($ millions)*	**603**	918
Share repurchases *($ millions)*	**379**	432
Dividends per share *($)*	**0.5750**	0.5375
Financial position [1]		
Total assets *($ millions)*	**46,435**	42,609
Total liabilities *($ millions)*	**27,601**	25,081
Shareholders' equity *($ millions)*	**18,834**	17,528
Financial ratio		
Operating ratio *(%)*	**65.7**	69.5
Adjusted operating ratio *(%)* [2]	**65.7**	67.2
Operational measures [3]		
Statistical operating data		
Gross ton miles (GTMs) *(millions)*	**113,979**	115,859
Revenue ton miles (RTMs) *(millions)*	**58,370**	59,067
Carloads *(thousands)*	**1,335**	1,418
Route miles *(includes Canada and the U.S.)*	**19,500**	19,500
Employees *(end of period)*	**23,975**	27,119
Employees *(average for the period)*	**25,264**	26,024
Key operating measures		
Freight revenue per RTM *(cents)*	**5.87**	5.78
Freight revenue per carload *($)*	**2,565**	2,407
GTMs per average number of employees *(thousands)*	**4,512**	4,452
Operating expenses per GTM *(cents)*	**2.04**	2.13
Labor and fringe benefits expense per GTM *(cents)*	**0.65**	0.69
Diesel fuel consumed *(US gallons in millions)*	**108.9**	117.5
Average fuel price *($/US gallon)*	**2.90**	3.04
GTMs per US gallon of fuel consumed	**1,047**	986
Train productivity *(GTMs per train mile)*	**9,134**	8,684
Car velocity *(car miles per day)*	**181**	173
Through dwell *(hours)*	**8.3**	8.7
Through network train speed *(miles per hour)*	**18.2**	17.1
Locomotive utilization *(trailing GTMs per total horsepower)*	**183**	186
Safety indicators [4]		
Injury frequency rate *(per 200,000 person hours)*	**2.14**	2.20
Accident rate *(per million train miles)*	**1.98**	3.10

(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, train productivity, through dwell, locomotive utilization, car velocity 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			
	2020	2019	% Change Fav (Unfav)	% Change at constant currency Fav (Unfav) (1)
Revenues *($ millions)* (2)				
Petroleum and chemicals	**791**	735	8%	7%
Metals and minerals	**405**	421	(4%)	(4%)
Forest products	**433**	456	(5%)	(6%)
Coal	**143**	163	(12%)	(12%)
Grain and fertilizers	**610**	577	6%	5%
Intermodal	**849**	850	—%	—%
Automotive	**193**	211	(9%)	(9%)
Total freight revenues	**3,424**	3,413	—%	—%
Other revenues	**121**	131	(8%)	(8%)
Total revenues	**3,545**	3,544	—%	—%
Revenue ton miles (RTMs) *(millions)* (3)				
Petroleum and chemicals	**13,688**	12,749	7%	7%
Metals and minerals	**6,476**	6,570	(1%)	(1%)
Forest products	**6,322**	6,818	(7%)	(7%)
Coal	**4,078**	4,294	(5%)	(5%)
Grain and fertilizers	**14,199**	13,867	2%	2%
Intermodal	**12,762**	13,848	(8%)	(8%)
Automotive	**845**	921	(8%)	(8%)
Total RTMs	**58,370**	59,067	(1%)	(1%)
Freight revenue / RTM *(cents)* (2) (3)				
Petroleum and chemicals	**5.78**	5.77	—%	—%
Metals and minerals	**6.25**	6.41	(2%)	(3%)
Forest products	**6.85**	6.69	2%	2%
Coal	**3.51**	3.80	(8%)	(8%)
Grain and fertilizers	**4.30**	4.16	3%	3%
Intermodal	**6.65**	6.14	8%	8%
Automotive	**22.84**	22.91	—%	(1%)
Total freight revenue / RTM	**5.87**	5.78	2%	1%
Carloads *(thousands)* (3)				
Petroleum and chemicals	**173**	168	3%	3%
Metals and minerals	**241**	235	3%	3%
Forest products	**88**	96	(8%)	(8%)
Coal	**77**	80	(4%)	(4%)
Grain and fertilizers	**150**	149	1%	1%
Intermodal	**548**	624	(12%)	(12%)
Automotive	**58**	66	(12%)	(12%)
Total carloads	**1,335**	1,418	(6%)	(6%)
Freight revenue / carload *($)* (2) (3)				
Petroleum and chemicals	**4,572**	4,375	5%	4%
Metals and minerals	**1,680**	1,791	(6%)	(7%)
Forest products	**4,920**	4,750	4%	3%
Coal	**1,857**	2,038	(9%)	(9%)
Grain and fertilizers	**4,067**	3,872	5%	5%
Intermodal	**1,549**	1,362	14%	14%
Automotive	**3,328**	3,197	4%	4%
Total freight revenue / carload	**2,565**	2,407	7%	6%

(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, 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.

For the three months ended March 31, 2019, the Company's adjusted net income was $848 million, or $1.17 per diluted share, which excludes a depreciation expense of $84 million, or $62 million after-tax ($0.09 per diluted share), related to costs previously capitalized for a Positive Train Control (PTC) back office system, following the deployment of a replacement system.

The following table provides a reconciliation of net income and earnings per share, as reported for the three months ended March 31, 2020 and 2019, to the adjusted performance measures presented herein:

	Three months ended March 31	
In millions, except per share data	**2020**	2019
Net income	**$ 1,011**	$ 786
Adjustments:		
Depreciation expense	**—**	84
Income tax recovery (1)	**(141)**	(22)
Adjusted net income	**$ 870**	$ 848
Basic earnings per share	**$ 1.42**	$ 1.08
Impact of adjustments, per share	**(0.20)**	0.09
Adjusted basic earnings per share	**$ 1.22**	$ 1.17
Diluted earnings per share	**$ 1.42**	$ 1.08
Impact of adjustments, per share	**(0.20)**	0.09
Adjusted diluted earnings per share	**$ 1.22**	$ 1.17

(1) The tax effect of adjustments reflects tax law and rate enactments, as well as tax rates in the applicable jurisdiction and the nature of the item for tax purposes.

Non-GAAP Measures – unaudited

The following table provides a reconciliation of operating income and operating ratio, as reported for the three months ended March 31, 2020 and 2019, to the adjusted performance measures presented herein:

In millions, except percentage	Three months ended March 31	
	2020	2019
Operating income	**$ 1,215**	$ 1,080
Adjustment: Depreciation expense	**—**	84
Adjusted operating income	**$ 1,215**	$ 1,164
Operating ratio [(1)]	**65.7%**	69.5%
Impact of adjustment	**—**	(2.3)-pts
Adjusted operating ratio	**65.7%**	67.2%

(1) 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 $1.34 and $1.33 per US$1.00 for the three months ended March 31, 2020 and 2019, respectively.

On a constant currency basis, the Company's net income for the three months ended March 31, 2020 would have remained the same.

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 as reported for the three months ended March 31, 2020 and 2019, to free cash flow:

In millions	Three months ended March 31	
	2020	2019
Net cash provided by operating activities	**$ 1,180**	$ 997
Net cash used in investing activities	**(607)**	(878)
Net cash provided before financing activities	**573**	119
Adjustment: Acquisition, net of cash acquired [(1)]	**—**	167
Free cash flow	**$ 573**	$ 286

(1) Relates to the acquisition of the TransX Group of Companies ("TransX"). See Note 3 - Business combinations to CN's 2020 unaudited Interim Consolidated Financial Statements for additional information.

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 to the adjusted measures presented below, which have been used to calculate the adjusted debt-to-adjusted EBITDA multiple:

In millions, unless otherwise indicated	*As at and for the twelve months ended March 31,*	**2020**	2019
Debt		**$ 15,287**	$ 13,433
Adjustments:			
Operating lease liabilities, including current portion		**493**	567
Pension plans in deficiency		**527**	475
Adjusted debt		**$ 16,307**	$ 14,475
Net income		**$ 4,441**	$ 4,373
Interest expense		**546**	498
Income tax expense		**1,122**	1,349
Depreciation and amortization		**1,514**	1,446
EBITDA		**7,623**	7,666
Adjustments:			
Other income		**(62)**	(372)
Other components of net periodic benefit income		**(319)**	(305)
Operating lease cost		**166**	208
Adjusted EBITDA		**$ 7,408**	$ 7,197
Adjusted debt-to-adjusted EBITDA multiple *(times)*		**2.20**	2.01

Consolidated Statements of Income – unaudited

In millions, except per share data	Three months ended March 31 2020	2019
Revenues *(Note 4)*	**$ 3,545**	$ 3,544
Operating expenses		
Labor and fringe benefits	**743**	798
Purchased services and material	**578**	558
Fuel	**360**	398
Depreciation and amortization *(Note 5)*	**392**	440
Equipment rents	**105**	114
Casualty and other	**152**	156
Total operating expenses	**2,330**	2,464
Operating income	**1,215**	1,080
Interest expense	**(139)**	(131)
Other components of net periodic benefit income *(Note 6)*	**78**	80
Other income	**11**	2
Income before income taxes	**1,165**	1,031
Income tax expense *(Note 7)*	**(154)**	(245)
Net income	**$ 1,011**	$ 786
Earnings per share *(Note 8)*		
Basic	**$ 1.42**	$ 1.08
Diluted	**$ 1.42**	$ 1.08
Weighted-average number of shares *(Note 8)*		
Basic	**712.3**	725.2
Diluted	**713.9**	727.7
Dividends declared per share	**$ 0.5750**	$ 0.5375

See accompanying notes to unaudited consolidated financial statements.

Consolidated Statements of Comprehensive Income – unaudited

In millions	Three months ended March 31 2020	2019
Net income	**$ 1,011**	$ 786
Other comprehensive income (loss) *(Note 12)*		
Net gain (loss) on foreign currency translation	**452**	(106)
Net change in pension and other postretirement benefit plans *(Note 6)*	**62**	40
Other comprehensive income (loss) before income taxes	**514**	(66)
Income tax recovery (expense)	**68**	(35)
Other comprehensive income (loss)	**582**	(101)
Comprehensive income	**$ 1,593**	$ 685

See accompanying notes to unaudited consolidated financial statements.

Consolidated Balance Sheets – unaudited

In millions		**March 31 2020**		December 31 2019
Assets				
Current assets				
Cash and cash equivalents	**$**	**488**	$	64
Restricted cash and cash equivalents *(Note 9)*		**525**		524
Accounts receivable		**1,269**		1,213
Material and supplies		**679**		611
Income taxes receivable [(1)]		**371**		219
Other current assets		**284**		199
Total current assets		**3,616**		2,830
Properties		**41,393**		39,669
Operating lease right-of-use assets *(Note 10)*		**503**		520
Pension asset		**488**		336
Intangible assets, goodwill and other *(Note 3)*		**435**		429
Total assets	**$**	**46,435**	$	43,784
Liabilities and shareholders' equity				
Current liabilities				
Accounts payable and other	**$**	**2,146**	$	2,357
Current portion of long-term debt		**2,592**		1,930
Total current liabilities		**4,738**		4,287
Deferred income taxes		**8,383**		7,844
Other liabilities and deferred credits		**674**		634
Pension and other postretirement benefits		**742**		733
Long-term debt		**12,695**		11,866
Operating lease liabilities *(Note 10)*		**369**		379
Shareholders' equity				
Common shares		**3,658**		3,650
Common shares in Share Trusts *(Note 9)*		**(126)**		(163)
Additional paid-in capital		**363**		403
Accumulated other comprehensive loss *(Note 12)*		**(2,901)**		(3,483)
Retained earnings		**17,840**		17,634
Total shareholders' equity		**18,834**		18,041
Total liabilities and shareholders' equity	**$**	**46,435**	$	43,784

(1) In the first quarter of 2020, the Company began presenting Income taxes receivable as a separate line on the Consolidated Balance Sheet. Previously, Income taxes receivable were included in Other current assets. Comparative figures have been adjusted to conform to the current presentation.

See accompanying notes to unaudited consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity – unaudited

In millions	Number of common shares: Outstanding	Number of common shares: Share Trusts	Common shares	Common shares in Share Trusts	Additional paid-in capital	Accumulated other comprehensive loss	Retained earnings	Total shareholders' equity
Balance at December 31, 2019	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 9)*	(3.3)		(17)				(362)	(379)
Share purchases by Share Trusts				(6)				(6)
Other comprehensive income *(Note 12)*						582		582
Dividends							(409)	(409)
Balance at March 31, 2020	**709.8**	**1.3**	**$ 3,658**	**$ (126)**	**$ 363**	**$ (2,901)**	**$ 17,840**	**$ 18,834**

In millions	Number of common shares: Outstanding	Number of common shares: Share Trusts	Common shares	Common shares in Share Trusts	Additional paid-in capital	Accumulated other comprehensive loss	Retained earnings	Total shareholders' equity
Balance at December 31, 2018	725.3	2.0	$ 3,634	$ (175)	$ 408	$ (2,849)	$ 16,623	$ 17,641
Net income							786	786
Stock options exercised	0.6		38		(6)			32
Settlement of equity settled awards	0.5	(0.5)		45	(45)		(53)	(53)
Stock-based compensation expense and other					25		(1)	24
Repurchase of common shares *(Note 9)*	(3.9)		(19)				(413)	(432)
Share purchases by Share Trusts	(0.1)	0.1		(9)				(9)
Other comprehensive loss *(Note 12)*						(101)		(101)
Dividends							(389)	(389)
Cumulative-effect adjustment from the adoption of ASU 2016-02 (1)							29	29
Balance at March 31, 2019	722.4	1.6	$ 3,653	$ (139)	$ 382	$ (2,950)	$ 16,582	$ 17,528

(1) The Company adopted Accounting Standards Update (ASU) 2016-02: Leases and related amendments (Topic 842) in the first quarter of 2019 using a modified retrospective approach with a cumulative-effect adjustment to Retained earnings recognized on January 1, 2019, with no restatement of comparative period financial information.

See accompanying notes to unaudited consolidated financial statements.

Consolidated Statements of Cash Flows – unaudited

In millions	Three months ended March 31 **2020**	2019
Operating activities		
Net income	**$ 1,011**	$ 786
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**392**	440
Pension income and funding	**(92)**	(115)
Deferred income taxes	**294**	100
Changes in operating assets and liabilities:		
Accounts receivable	**(1)**	(28)
Material and supplies	**(52)**	(110)
Accounts payable and other	**(406)**	(387)
Other current assets	**7**	6
Other operating activities, net	**27**	305
Net cash provided by operating activities	**1,180**	997
Investing activities		
Property additions	**(603)**	(703)
Acquisition, net of cash acquired *(Note 3)*	**—**	(167)
Other investing activities, net	**(4)**	(8)
Net cash used in investing activities	**(607)**	(878)
Financing activities		
Issuance of debt *(Note 9)*	**947**	790
Repayment of debt	**(606)**	(5)
Change in commercial paper, net *(Note 9)*	**304**	(14)
Settlement of foreign exchange forward contracts on debt	**21**	8
Issuance of common shares for stock options exercised	**22**	32
Withholding taxes remitted on the net settlement of equity settled awards *(Note 11)*	**(43)**	(52)
Repurchase of common shares *(Note 9)*	**(379)**	(419)
Purchase of common shares for settlement of equity settled awards	**(2)**	(1)
Purchase of common shares by Share Trusts	**(6)**	(9)
Dividends paid	**(409)**	(389)
Net cash used in financing activities	**(151)**	(59)
Effect of foreign exchange fluctuations on cash, cash equivalents, restricted cash and restricted cash equivalents	**3**	—
Net increase in cash, cash equivalents, restricted cash, and restricted cash equivalents	**425**	60
Cash, cash equivalents, restricted cash, and restricted cash equivalents, beginning of period	**588**	759
Cash, cash equivalents, restricted cash, and restricted cash equivalents, end of period	**$ 1,013**	$ 819
Cash and cash equivalents, end of period	**$ 488**	$ 339
Restricted cash and cash equivalents, end of period	**525**	480
Cash, cash equivalents, restricted cash, and restricted cash equivalents, end of period	**$ 1,013**	$ 819
Supplemental cash flow information		
Interest paid	**$ (183)**	$ (151)
Income taxes refunded (paid)	**$ 9**	$ (242)

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 2019 Annual Consolidated Financial Statements, except as disclosed in *Note 2 – Recent accounting pronouncements*, 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) was adopted by the Company during the first quarter of 2020:

ASU 2016-13 Financial instruments - Credit losses (Topic 326): Measurement of credit losses on financial instruments
The ASU requires financial assets measured at amortized cost to be presented at the net amount expected to be collected. The new standard replaces the current incurred loss impairment methodology with one that reflects expected credit losses.

The Company adopted this standard in the first quarter of 2020 with an effective date of January 1, 2020. The adoption of this standard did not have an impact on the Company's Consolidated Financial Statements, other than for the new disclosure requirements.

The accounting policy for accounts receivable has been updated as follows:

Accounting policy for accounts receivable
Accounts receivable are recorded at cost net of billing adjustments and an allowance for credit losses. The allowance for credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectibility of the reported amount. When a receivable is deemed uncollectible, it is written off against the allowance for credit losses. Subsequent recoveries of amounts previously written off are credited to bad debt expense in Casualty and other in the Consolidated Statements of Income.

The following recent ASU issued by FASB came into effect in the first quarter of 2020 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
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 provisions of the ASU are effective starting on March 12, 2020; however, they will only be available until December 31, 2022, when the reference rate replacement activity is expected to have completed. The Company may apply the provisions of the ASU as of the beginning of a reporting period when the elections are made, or prospectively from the date within an interim period that includes or is subsequent to March 12, 2020. The Company currently has outstanding loans and finance lease obligations referencing LIBOR totaling approximately US$400 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, 2020 have been evaluated by the Company and are not expected to have a significant impact on the Company's Consolidated Financial Statements.

3 – Business combinations

2019

Acquisition of intermodal division of H&R Transport Limited

On December 2, 2019, the Company acquired the intermodal temperature-controlled transportation division of the Alberta-based H&R Transport Limited ("H&R"). The acquisition positions CN to expand its presence in moving customer goods by offering more end to end rail supply chain solutions to a wider range of customers.

The Company's Consolidated Balance Sheet includes the assets and liabilities of H&R as of December 2, 2019, the acquisition date. Since the acquisition date, H&R's results of operations have been included in the Company's results of operations. The Company has not provided pro forma information relating to the pre-acquisition period as it was not material.

Of the total purchase price of $105 million, $95 million was paid on the closing date and $10 million mostly related to funds withheld for the indemnification of claims which will be paid within twenty months of the acquisition date.

The following table summarizes the consideration transferred to acquire H&R, as well as the preliminary fair value of the assets acquired and liabilities assumed, and goodwill that were recognized at the acquisition date:

In millions		**December 2 2019**
Consideration transferred		
Cash paid at closing	**$**	**95**
Additional cash consideration and other (1)		**10**
Fair value of total consideration transferred	**$**	**105**
Recognized amounts of identifiable assets acquired and liabilities assumed (2)		
Current assets	**$**	**10**
Non-current assets (3)		**84**
Non-current liabilities		**(1)**
Total identifiable net assets (4)	**$**	**93**
Goodwill (5)	**$**	**12**

(1) Includes consideration payable of $8 million to be paid within twenty months of the acquisition date plus cash paid of $2 million to reflect the settlement of working capital.

(2) The Company's purchase price allocation is preliminary, based on information available to the Company to date, and subject to change over the measurement period, which may be up to one year from the acquisition date.

(3) Includes identifiable intangible assets of $52 million.

(4) Includes operating lease right-of-use assets and liabilities.

(5) The goodwill acquired through the business combination is mainly attributable to the premium of an established business operation. The goodwill is deductible for tax purposes.

Acquisition of the TransX Group of Companies

On March 20, 2019, the Company acquired the Manitoba-based TransX Group of Companies ("TransX"). TransX provides various transportation and logistics services, including intermodal, truckload, less than truckload and specialized services. The acquisition positions CN to strengthen its intermodal business, and allows the Company to expand capacity and foster additional supply chain solutions.

The Company's Consolidated Balance Sheet includes the assets and liabilities of TransX as of March 20, 2019, the acquisition date. Since the acquisition date, TransX's results of operations have been included in the Company's results of operations. The Company has not provided pro forma information relating to the pre-acquisition period as it was not material.

The total purchase price of $192 million included an initial cash payment of $170 million, additional consideration of $25 million, less an adjustment of $3 million in the fourth quarter of 2019 to reflect the settlement of working capital. The acquisition date fair value of the additional consideration, recorded as a contingent liability, was estimated based on the expected outcome of operational and financial targets, and remained unchanged since the acquisition date. The fair value measure was based on Level 3 inputs not observable in the market. On August 27, 2019, the additional consideration was paid.

The following table summarizes the consideration transferred to acquire TransX, as well as the fair value of the assets acquired and liabilities assumed, and goodwill that were recognized as part of the transaction:

In millions		March 20 2019
Consideration transferred		
Cash paid at closing	$	170
Additional cash consideration and other (1)		22
Fair value of total consideration transferred	$	192
Recognized amounts of identifiable assets acquired and liabilities assumed (2)		
Current assets	$	85
Non-current assets (3)		260
Current liabilities		(134)
Non-current liabilities		(77)
Total identifiable net assets (4)	$	134
Goodwill (5)	$	58

(1) Includes additional cash consideration paid of $25 million less an adjustment of $3 million to reflect the settlement of working capital.

(2) In 2019, the Company's purchase price allocation was preliminary, and was subject to change over the measurement period, permitted to be up to one year from the acquisition date. In the first quarter of 2020, based on updated information available to the Company, the fair value of net assets acquired was adjusted to reflect a net decrease to current and deferred income tax balances of $7 million, resulting in a decrease to Goodwill for the same amount. The Company's purchase price allocation is now final.

(3) Includes identifiable intangible assets of $34 million.

(4) Includes finance and operating lease right-of-use assets and liabilities.

(5) The goodwill acquired through the business combination is mainly attributable to the premium of an established business operation. The goodwill is not deductible for tax purposes.

4 – Revenues

The following table provides disaggregated information for revenues:

	Three months ended March 31			
In millions		**2020**		2019
Freight revenues				
Petroleum and chemicals	$	791	$	735
Metals and minerals		405		421
Forest products		433		456
Coal		143		163
Grain and fertilizers		610		577
Intermodal		849		850
Automotive		193		211
Total freight revenues		3,424		3,413
Other revenues		121		131
Total revenues (1)	$	3,545	$	3,544
Revenues by geographic area				
Canada	$	2,438	$	2,386
United States (U.S.)		1,107		1,158
Total revenues (1)	$	3,545	$	3,544

(1) As at March 31, 2020, the Company had remaining performance obligations related to freight in-transit, for which revenues of $91 million 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, 2020 and 2019:

	Three months ended March 31	
In millions	**2020**	2019
Beginning balance	**$ 211**	$ 3
Revenue recognized included in the beginning balance	**(6)**	(2)
Increase due to consideration received, net of revenue recognized	**1**	240
Ending balance	**$ 206**	$ 241
Current portion - End of period	**$ 38**	$ 31

5 – Properties

In the first quarter of 2019, the Company recognized an expense of $84 million related to costs previously capitalized for a Positive Train Control (PTC) back office system following the deployment of a replacement system. The expense was recognized in Depreciation and amortization on the Consolidated Statements of Income.

6 – 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 15 – Pensions and other postretirement benefits* to the Company's 2019 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, 2020 and 2019:

	Three months ended March 31			
	Pensions		Other postretirement benefits	
In millions	**2020**	2019	**2020**	2019
Current service cost	**$ 48**	$ 40	**$ 1**	$ 1
Other components of net periodic benefit cost (income)				
Interest cost	**133**	149	**1**	2
Expected return on plan assets	**(274)**	(271)	**—**	—
Amortization of prior service cost	**1**	1	**—**	—
Amortization of net actuarial loss (gain)	**62**	40	**(1)**	(1)
Total Other components of net periodic benefit cost (income)	**(78)**	(81)	**—**	1
Net periodic benefit cost (income)	**$ (30)**	$ (41)	**$ 1**	$ 2

Pension contributions

Pension contributions for the three months ended March 31, 2020 and 2019 of $68 million and $80 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 2020, the Company now expects to make total cash contributions of approximately $130 million for all of the Company's pension plans.

7 – Income taxes

Income tax expense was $154 million for the three months ended March 31, 2020 compared to $245 million for the same period in 2019. 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 existing 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 to reflect an amount recoverable at the higher U.S. federal corporate income tax rate of 35% applicable to pre-2018 tax years.

8 – Earnings per share

	Three months ended March 31	
In millions, except per share data	**2020**	2019
Net income	**$ 1,011**	$ 786
Weighted-average basic shares outstanding	**712.3**	725.2
Dilutive effect of stock-based compensation	**1.6**	2.5
Weighted-average diluted shares outstanding	**713.9**	727.7
Basic earnings per share	**$ 1.42**	$ 1.08
Diluted earnings per share	**$ 1.42**	$ 1.08
Units excluded from the calculation as their inclusion would not have a dilutive effect		
Stock options	**1.2**	1.1
Performance share units	**0.3**	0.3

9 – Financing activities

Shelf prospectus and registration statement

On February 11, 2020, the Company filed a new shelf prospectus with Canadian securities regulators and a registration statement with the United States Securities and Exchange Commission (SEC), pursuant to which CN 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. This shelf prospectus and registration statement replaced CN's previous shelf prospectus and registration statement that was to expire on March 13, 2020. 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, 2020, the Company repaid the following:

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

For the three months ended March 31, 2019, the Company issued the following:

- On February 8, 2019, issuance of $350 million 3.00% Notes due 2029 and $450 million 3.60% Notes due 2049 in the Canadian capital markets, which resulted in total net proceeds of $790 million.

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 15, 2019, the Company's revolving credit facility agreement was amended, which extended the term of the credit facility by one year and increased the credit facility from $1.8 billion to $2.0 billion, effective May 5, 2019. The amended credit facility of $2.0 billion consists of a $1.0 billion tranche maturing on May 5, 2022 and a $1.0 billion tranche maturing on May 5, 2024. Under the amended credit facility, the Company has the option to request an extension once a year to maintain the tenors of three years and five years of the respective tranches subject to the consent of the individual lenders. The accordion feature, which provides for an additional $500 million of credit under the facility, remains unchanged. The credit facility agreement contains customary terms and conditions, which were substantially unchanged by the amendment. The credit facility provides for borrowings at various benchmark interest rates, plus applicable margins, based on CN's debt credit ratings. The Company borrowed $100 million on this facility during the three months ended March 31, 2020. As at March 31, 2020 and December 31, 2019, the Company had outstanding borrowings under this revolving credit facility of $100 million and $nil, respectively, at a weighted-average interest rate of 2.35% and nil, respectively, presented in Current portion of long-term debt on the Consolidated Balance Sheets.

On March 27, 2020, the Company entered into a $250 million one year revolving credit facility agreement. The credit facility is available for working capital and general corporate purposes and provides for borrowings at various interest rates, plus a margin. As at March 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, 2020.

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

On July 25, 2019, the Company entered into a US$300 million, non-revolving term loan credit facility agreement for financing or refinancing the purchase of equipment, which was available to be drawn upon through March 31, 2020. Term 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 27, 2020, the Company entered into loan supplements to the original agreement for an additional principal amount of US$310 million, which is available to be drawn through March 31, 2021.

The Company borrowed US$300 million ($397 million) on this facility during the three months ended March 31, 2020.

As at March 31, 2020 and December 31, 2019, the Company had outstanding borrowings under this non-revolving term loan facility of US $300 million ($422 million) and $nil, respectively, at a weighted-average interest rate of 2.41% and nil, respectively.

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. As of May 5, 2019, the maximum aggregate principal amount of commercial paper that could be issued increased from $1.8 billion to $2.0 billion, or the US dollar equivalent, on a combined basis.

As at March 31, 2020 and December 31, 2019, the Company had total commercial paper borrowings of US$1,218 million ($1,713 million) and US$983 million ($1,277 million), respectively, at a weighted-average interest rate of 1.59% and 1.77%, 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, 2020 and 2019:

	Three months ended March 31	
In millions	**2020**	2019
Commercial paper with maturities less than 90 days		
Issuance	**$ 1,658**	$ 1,009
Repayment	**(1,512)**	(1,264)
Change in commercial paper with maturities less than 90 days, net	**$ 146**	$ (255)
Commercial paper with maturities of 90 days or greater		
Issuance	**$ 579**	$ 529
Repayment	**(421)**	(288)
Change in commercial paper with maturities of 90 days or greater, net	**$ 158**	$ 241
Change in commercial paper, net	**$ 304**	$ (14)

Accounts receivable securitization program

The Company has an agreement to sell an undivided co-ownership interest in a revolving pool of accounts receivable to unrelated trusts for maximum cash proceeds of $450 million. On February 27, 2020, the Company extended the term of its agreement by two years to February 1, 2023.

For the three months ended March 31, 2020, the Company had proceeds from the accounts receivable securitization program of $450 million, and repayments of $200 million.

As at March 31, 2020 and December 31, 2019, the Company had accounts receivable securitization borrowings of $450 million and $200 million, respectively, at a weighted-average interest rate of 1.60% and 1.90%, respectively, secured by and limited to $511 million and $224 million of accounts receivable, respectively, presented in Current portion of long-term debt on the Consolidated Balance Sheet.

Bilateral letter of credit facilities

The Company has a series of committed and uncommitted bilateral letter of credit facility agreements. On March 15, 2019, the Company extended the maturity date of the committed bilateral letter of credit facility agreements to April 28, 2022. 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, 2020, the Company had outstanding letters of credit of $433 million ($424 million as at December 31, 2019) under the committed facilities from a total available amount of $470 million ($459 million as at December 31, 2019) and $154 million ($149 million as at December 31, 2019) under the uncommitted facilities.

As at March 31, 2020, included in Restricted cash and cash equivalents was $429 million ($429 million as at December 31, 2019) and $90 million ($90 million as at December 31, 2019) 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. Under its current NCIB, the Company may repurchase up to 16.0 million common shares between February 1, 2020 and January 31, 2021. As at March 31, 2020, the Company had repurchased 2.0 million common shares for $226 million under its current NCIB.

The Company repurchased 14.1 million common shares under its previous NCIB effective between February 1, 2019 and January 31, 2020, which allowed for the repurchase of up to 22.0 million common shares.

As of March 31, 2020, in light of the uncertain and unprecedented environment, the Company had paused share repurchases.

The following table provides the information related to the share repurchases for the three months ended March 31, 2020 and 2019:

	Three months ended March 31	
In millions, except per share data	**2020**	2019
Number of common shares repurchased	**3.3**	3.9
Weighted-average price per share	**$ 116.97**	$ 111.28
Amount of repurchase	**$ 379**	$ 432

Share Trusts

The Company's Employee Benefit Plan Trusts ("Share Trusts") purchase CN's common shares on the open market, which are used to deliver common shares under the Share Units Plan and, beginning in 2019, 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 16 – Share capital* to the Company's 2019 Annual 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, 2020 and 2019:

	Three months ended March 31	
In millions	**2020**	2019
Finance lease cost		
Amortization of right-of-use assets	**$ 3**	$ 2
Interest on lease liabilities	**1**	2
Total finance lease cost	**4**	4
Operating lease cost	**35**	40
Short-term lease cost	**11**	11
Variable lease cost (1)	**14**	16
Total lease cost (2)	**$ 64**	$ 71

(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, 2020 and December 31, 2019:

In millions	**Classification**	**March 31 2020**	December 31 2019
Lease right-of-use assets			
Finance leases	Properties	**$ 535**	$ 534
Operating leases	Operating lease right-of-use assets	**503**	520
Total lease right-of-use assets		**$ 1,038**	$ 1,054
Lease liabilities			
Current			
Finance leases	Current portion of long-term debt	**$ 54**	$ 59
Operating leases	Accounts payable and other	**124**	122
Noncurrent			
Finance leases	Long-term debt	**78**	75
Operating leases	Operating lease liabilities	**369**	379
Total lease liabilities		**$ 625**	$ 635

The following table provides the remaining lease terms and discount rates for the Company's leases as at March 31, 2020 and December 31, 2019:

	March 31 2020	December 31 2019
Weighted-average remaining lease term *(years)*		
Finance leases	**1.2**	1.4
Operating leases	**6.8**	7.0
Weighted-average discount rate *(%)*		
Finance leases	**3.19**	3.21
Operating leases	**3.11**	3.12

The following table provides additional information for the Company's leases for the three months ended March 31, 2020 and 2019:

	Three months ended March 31	
In millions	**2020**	2019
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash outflows from operating leases	**$ 37**	$ 41
Operating cash outflows from finance leases	**$ 1**	$ 2
Financing cash outflows from finance leases	**$ 9**	$ 5
Right-of-use assets obtained in exchange for lease liabilities		
Operating lease	**$ 9**	$ 16
Finance lease	**$ —**	$ —

The following table provides the maturities of lease liabilities for the next five years and thereafter as at March 31, 2020:

In millions	Finance leases	Operating leases (1)
2020	$ 54	$ 108
2021	77	115
2022	1	78
2023	—	54
2024	—	38
2025 and thereafter	3	157
Total lease payments	135	550
Less: Imputed interest	3	57
Present value of lease payments	$ 132	$ 493

(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 17 – Stock-based compensation* to the Company's 2019 Annual Consolidated Financial Statements.

In millions	Three months ended March 31 **2020**		2019	
Share Units Plan (1)	**$**	**4**	$	13
Voluntary Incentive Deferral Plan (VIDP) (2)		**(1)**		3
Stock option awards		**3**		3
Employee Share Investment Plan (ESIP)		**7**		1
Total stock-based compensation expense	**$**	**13**	$	20
Income tax impacts of stock-based compensation				
Tax benefit recognized in income	**$**	**3**	$	5
Excess tax benefit recognized in income	**$**	**13**	$	20

(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

	Equity settled					
	PSUs-ROIC (1)			**PSUs-TSR (2)**		
	Units *In millions*	Weighted-average grant date fair value		Units *In millions*	Weighted-average grant date fair value	
Outstanding at December 31, 2019	1.0	$	58.35	0.3	$	112.08
Granted	0.3	$	73.23	0.1	$	151.50
Settled (3) (4)	(0.4)	$	53.19	(0.1)	$	103.36
Forfeited	—	$	62.50	—	$	121.21
Outstanding at March 31, 2020	**0.9**	**$**	**64.78**	**0.3**	**$**	**130.68**

(1) The grant date fair value of equity settled PSUs-ROIC granted in 2020 of $19 million is calculated using a lattice-based valuation model. As at March 31, 2020, 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 2020 of $20 million is calculated using a Monte Carlo simulation model. As at March 31, 2020, total unrecognized compensation cost related to all outstanding awards was $23 million and is expected to be recognized over a weighted-average period of 2.1 years.

(3) Equity settled PSUs-ROIC granted in 2017 met the minimum share price condition for settlement and attained a performance vesting factor of 169%. Equity settled PSUs-TSR granted in 2017 attained a performance vesting factor of 100%.

(4) In the first quarter of 2020, these awards were settled, net of the remittance of the participants' withholding tax obligation of $41 million, by way of disbursement from the Share Trusts of 0.4 million common shares.

Voluntary Incentive Deferral Plan

	Equity settled DSUs [1]		Cash settled DSUs [2]
	Units	Weighted-average grant date fair value	Units
	In millions		*In millions*
Outstanding at December 31, 2019	0.7	$ 81.91	0.1
Granted	—	$ 124.14	—
Settled	—	$ 77.09	—
Outstanding at March 31, 2020 [3]	**0.7**	**$ 82.52**	**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, 2020, the aggregate intrinsic value of all equity settled DSUs outstanding amounted to $71 million.

(2) The fair value of cash settled DSUs as at March 31, 2020 is based on the intrinsic value. As at March 31, 2020, the liability for all cash settled DSUs was $15 million ($16 million as at December 31, 2019). The closing stock price used to determine the liability was $110.03.

(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

	Options outstanding	
	Number of options	Weighted-average exercise price
	In millions	
Outstanding at December 31, 2019 [1]	3.8	$ 86.89
Granted [2]	0.7	$ 125.47
Exercised	(0.3)	$ 69.20
Forfeited	(0.1)	$ 107.79
Outstanding at March 31, 2020 [1] [2] [3]	**4.1**	**$ 98.80**
Exercisable at March 31, 2020 [1] [3]	**2.2**	**$ 82.78**

(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 2020 of $13 million ($18.90 per option) is calculated using the Black-Scholes option-pricing model. The options granted in 2020 vest over a five-year period compared to a four-year period for options granted prior to 2020. As at March 31, 2020, total unrecognized compensation cost related to all outstanding awards was $19 million and is expected to be recognized over a weighted-average period of 2.5 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 5.6 years. As at March 31, 2020, the aggregate intrinsic value of in-the-money stock options outstanding amounted to $66 million and the aggregate intrinsic value of stock options exercisable amounted to $60 million.

Employee Share Investment Plan

	ESIP	
	Number of shares	Weighted-average share price
	In millions	
Unvested contributions, December 31, 2019	0.3	$ 118.83
Company contributions	—	$ 116.23
Vested	(0.1)	$ 112.01
Unvested contributions, March 31, 2020 [1]	**0.2**	**$ 120.36**

(1) As at March 31, 2020, total unrecognized compensation cost related to all outstanding awards was $15 million and is expected to be recognized over the next 12 months.

12 – Accumulated other comprehensive loss

In millions	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
Other comprehensive income	452	62	514	68	582
Balance at March 31, 2020	**$ 155**	**$ (4,259)**	**$ (4,104)**	**$ 1,203**	**$ (2,901)**

In millions	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, 2018	$ (41)	$ (3,881)	$ (3,922)	$ 1,073	$ (2,849)
Other comprehensive income (loss) before reclassifications:					
Foreign exchange loss on translation of net investment in foreign operations	(279)		(279)	–	(279)
Foreign exchange gain on translation of US dollar-denominated debt designated as a hedge of the net investment in foreign operations (2)	173		173	(24)	149
Amounts reclassified from Accumulated other comprehensive loss:					
Amortization of net actuarial loss		39	39 (3)	(11) (4)	28
Amortization of prior service cost		1	1 (3)	– (4)	1
Other comprehensive income (loss)	(106)	40	(66)	(35)	(101)
Balance at March 31, 2019	$ (147)	$ (3,841)	$ (3,988)	$ 1,038	$ (2,950)

(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 6 - 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, 2020, the Company had fixed and variable commitments to purchase rail, information technology services and licenses, wheels, engineering services, locomotives, railroad ties, rail cars, as well as other equipment and services with a total estimated cost of $1,427 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, 2020, the Company had aggregate reserves for personal injury and other claims of $365 million, of which $68 million was recorded as a current liability ($352 million as at December 31, 2019, of which $91 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, 2020, 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

The Company's operations are subject to numerous federal, provincial, state, municipal and local environmental laws and regulations in Canada and the U.S. concerning, among other things, emissions into the air; discharges into waters; the generation, handling, storage, transportation, treatment and disposal of waste, hazardous substances, and other materials; decommissioning of underground and aboveground storage tanks; and soil and groundwater contamination. A risk of environmental liability is inherent in railroad and related transportation operations; real estate ownership, operation or control; and other commercial activities of the Company with respect to both current and past operations.

The Company is or may be liable for remediation costs at individual sites, in some cases along with other potentially responsible parties, associated with actual or alleged contamination. The ultimate cost of addressing these known contaminated sites cannot be definitively established given that the estimated environmental liability for any given site may vary depending on the nature and extent of the contamination; the nature of anticipated response actions, taking into account the available clean-up techniques; evolving regulatory standards governing environmental liability; and the number of potentially responsible parties and their financial viability. As a result, liabilities are recorded based on the results of a four-phase assessment conducted on a site-by-site basis. A liability is initially recorded when environmental assessments occur, remedial efforts are probable, and when the costs, based on a specific plan of action in terms of the technology to be used and the extent of the corrective action required, can be reasonably estimated. The Company estimates the costs related to a particular site using cost scenarios established by external consultants based on the extent of contamination and expected costs for remedial efforts. In the case of multiple parties, the Company accrues its allocable share of liability taking into account the Company's alleged responsibility, the number of potentially responsible parties and their ability to pay their respective share of the liability. Adjustments to initial estimates are recorded as additional information becomes available.

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, 2020, the Company had aggregate accruals for environmental costs of $69 million, of which $49 million was recorded as a current liability ($57 million as at December 31, 2019, of which $38 million was recorded as a current liability). The Company anticipates that the majority of the liability at March 31, 2020 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 19 – Major commitments and contingencies* to the Company's 2019 Annual Consolidated Financial Statements.

As at March 31, 2020, the Company had outstanding letters of credit of $433 million ($424 million as at December 31, 2019) under the committed bilateral letter of credit facilities and $154 million ($149 million as at December 31, 2019) under the uncommitted bilateral letter of credit facilities, and surety and other bonds of $170 million ($169 million as at December 31, 2019), 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, 2020, the maximum potential liability under these guarantee instruments was $757 million ($742 million as at December 31, 2019), of which $691 million ($681 million as at December 31, 2019) related to other employee benefit liabilities and workers' compensation and $66 million ($61 million as at December 31, 2019) related to other liabilities. The guarantee instruments expire at various dates between 2020 and 2023.

As at March 31, 2020, 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, 2020, the Company had outstanding foreign exchange forward contracts with a notional value of US$1,218 million (US$1,088 million as at December 31, 2019). 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 Statement of Income as they occur.

For the three months ended March 31, 2020 and 2019, the Company recorded a gain of $126 million and a loss of $44 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, 2020, the fair value of outstanding foreign exchange forward contracts included in Other current assets and Accounts payable and other was $83 million and $6 million, respectively ($nil and $24 million, respectively, as at December 31, 2019).

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. The fair value of these financial instruments is not determined using quoted prices, but rather from market observable information. The fair value of derivative financial instruments, classified as Level 2, used to manage the Company's exposure to foreign currency risk and included in Other current assets and Accounts payable and other 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, 2020, the Company's debt, excluding finance leases, had a carrying amount of $15,155 million ($13,662 million as at December 31, 2019) and a fair value of $17,198 million ($15,667 million as at December 31, 2019).

Management's Discussion and Analysis

This Management's Discussion and Analysis (MD&A) dated April 27, 2020, 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 2020 unaudited Interim Consolidated Financial Statements and Notes thereto. It should also be read in conjunction with the Company's 2019 audited Annual Consolidated Financial Statements and Notes thereto, and the 2019 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 2019 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.

Business profile

CN is engaged in the rail and related transportation business. CN's network, of approximately 20,000 route miles of track spans Canada and mid-America, uniquely connecting three coasts: the Atlantic, the Pacific and the Gulf of Mexico. CN's extensive network and efficient connections to all Class I railroads provide CN customers access to Canada, the United States (U.S.) and Mexico. A true backbone of the economy, CN handles over $250 billion worth of goods annually and carries over 300 million tons of cargo, serving exporters, importers, retailers, farmers and manufacturers.

CN's freight revenues are derived from seven commodity groups representing a diversified and balanced portfolio of goods transported between a wide range of origins and destinations. This product and geographic diversity better positions the Company to face economic fluctuations and enhances its potential for growth opportunities. For the year ended December 31, 2019, CN's largest commodity group accounted for 25% of total revenues. From a geographic standpoint, 16% of revenues relate to U.S. domestic traffic, 34% transborder traffic, 17% Canadian domestic traffic and 33% overseas traffic. The Company is the originating carrier for over 85%, and the originating and terminating carrier for over 65%, of traffic moving along its network, which allows it both to capitalize on service advantages and build on opportunities to efficiently use assets.

Strategy overview

A description of the Company's strategy is provided in the section entitled *Strategy overview* of the Company's 2019 Annual MD&A.

First quarter 2020 compared to first quarter 2019

- CN delivered a solid performance with higher first quarter net income, earnings per share and operating income, despite illegal blockades affecting the fluidity of the network.
- Net income increased by $225 million, or 29%, to $1,011 million and diluted earnings per share increased by 31% to $1.42.
- Adjusted net income increased by $22 million, or 3%, to $870 million and adjusted diluted earnings per share increased by 4% to $1.22. (1)
- Operating income was $1,215 million, an increase of $135 million or 13%, and an increase of $51 million or 4% on an adjusted basis. (1)
- Operating ratio was 65.7%, an improvement of 3.8-points and an improvement of 1.5-points on an adjusted basis. (1)
- Revenues remained flat at $3,545 million.
- Operating expenses decreased by $134 million, or 5%, to $2,330 million.
- Free cash flow was $573 million, an increase of $287 million. (2)
- The Company repurchased 3.3 million common shares, returning $379 million to its shareholders.
- CN paid a quarterly dividend of $0.5750 per share, representing an increase of 7%, amounting to $409 million.
- CN delivered a 6% improvement in fuel productivity, producing an all time record performance and supporting the Company's sustainability agenda.

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

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

Acquisitions

On April 6, 2020, the Surface Transportation Board (STB) issued its decision conditionally approving the acquisition of the Massena rail line from CSX Corporation, which the Company announced its agreement to purchase on August 29, 2019. The STB decision will become effective on May 21, 2020, unless postponed by the STB. The transaction will close upon reaching standard agreements covering employee protective conditions. The acquisition represents more than 220 miles of track between Valleyfield, Quebec, and Woodard, New York, and will allow CN to continue to expand its network and foster additional supply chain solutions.

In the first quarter of 2020, the Company completed the purchase price allocation of the Manitoba based TransX Group of Companies ("TransX") which was acquired on March 20, 2019. The fair value of net assets acquired was adjusted to reflect the settlement of working capital and other adjustments in the fourth quarter of 2019, and the changes to current and deferred income tax balances. The acquisition positions CN to strengthen its intermodal business, and allows the Company to expand capacity and foster additional supply chain solutions.

On December 2, 2019, the Company acquired the intermodal temperature-controlled transportation division of the Alberta-based H&R Transport Limited ("H&R"). The acquisition positions CN to expand its presence in moving customer goods by offering more end to end rail supply chain solutions to a wider range of customers.

2020 Business outlook and assumptions - Prudent financial management in unprecedented economic uncertainty

The rapid development and fluidity of the COVID-19 pandemic has significantly increased uncertainty in CN's operating environment. Starting in late March 2020, the continued spread of the COVID-19 pandemic has resulted in significantly weaker demand for freight transportation services, which we expect to persist throughout the second quarter, and potentially beyond.

Widespread layoffs by our customers, government mandated self-quarantines and closures for non-essential businesses have significantly curbed customer demand. Negative effects on demand have occurred across many commodities that CN transports, including: automotive due to temporary closures of automotive plants, refined petroleum products (gasoline, diesel and jet fuel) due to travel restrictions, paper products due to work-from-home policies, industrial products due to a slowdown in North American manufacturing, and intermodal due to lower production overseas as a result of temporary closure of plants, reduced household incomes and consumer confidence.

While CN has been designated an essential service in the regions in which we operate and we have executed business continuity plans to continue to deliver for our customers, the Company is part of an integrated global supply chain. The impact of the COVID-19 pandemic on other aspects of the supply chain, including ocean carriers, ports, terminals, trucking firms, and other railroads, is having a consequent impact on CN’s operations.

In response to the rapidly emerging economic backdrop, CN has undertaken actions to protect the safety of its employees, reduce costs, and protect the Company’s liquidity.

The long-term impacts of the COVID-19 pandemic, including the extent of the impact on our business, financial position, results of operations or liquidity, remain unknown. With the continued global spread of the COVID-19 pandemic and the consequent unprecedented economic uncertainty, the Company is suspending its 2020 guidance provided in its 2019 year-end earnings press release on January 28, 2020. Investors should no longer rely on this guidance.

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. 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 by their nature address matters that are, to different degrees, uncertain, such as statements about the potential impacts of the COVID-19 pandemic on our business operations, financial results and financial position and on the global supply chain. 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 - 2020 Business outlook and assumptions*.

Forward-looking statements	Key assumptions
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	• 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	• 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 or performance of the Company to be materially different from the outlook or any future results or performance 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 effects of a pandemic outbreak of a contagious illness; 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; 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 2019 Annual MD&A for a description of major risk factors.

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 and operating highlights

In millions, except percentage and per share data	Three months ended March 31 **2020**	2019	% Change
Revenues	**$ 3,545**	$ 3,544	—%
Operating income	**$ 1,215**	$ 1,080	13%
Adjusted operating income [(1)]	**$ 1,215**	$ 1,164	4%
Net income	**$ 1,011**	$ 786	29%
Adjusted net income [(1)]	**$ 870**	$ 848	3%
Basic earnings per share	**$ 1.42**	$ 1.08	31%
Adjusted basic earnings per share [(1)]	**$ 1.22**	$ 1.17	4%
Diluted earnings per share	**$ 1.42**	$ 1.08	31%
Adjusted diluted earnings per share [(1)]	**$ 1.22**	$ 1.17	4%
Dividends declared per share	**$ 0.5750**	$ 0.5375	7%
Total assets	**$ 46,435**	$ 42,609	9%
Total long-term liabilities	**$ 22,863**	$ 21,065	9%
Operating ratio [(2)]	**65.7%**	69.5%	3.8-pts
Adjusted operating ratio [(1)]	**65.7%**	67.2%	1.5-pts
Free cash flow [(3)]	**$ 573**	$ 286	100%

(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.

The following table lists key measures of the Company's operating performance, for the purpose of measuring the efficiency and effectiveness of train operations:

	Three months ended March 31 **2020**	2019	% Change
Gross ton miles (GTMs) *(millions)* [(1)]	**113,979**	115,859	(2)%
Train productivity *(GTMs per train mile)* [(2)]	**9,134**	8,684	5 %
Through dwell *(Entire railroad, hours)* [(3)]	**8.3**	8.7	5 %
Locomotive utilization *(Trailing GTMs per total horsepower)* [(4)]	**183**	186	(2)%
Car velocity *(Car miles per day)* [(5)]	**181**	173	5 %
Through network train speed *(miles per hour)* [(6)]	**18.2**	17.1	6 %

(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 productivity: 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.

(3) 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.

(4) Locomotive utilization: This measure represents the productivity of our active locomotive fleet. Calculated as the sum of the trailing GTMs divided by the total sum of horsepower (HP) of the active locomotives. It is a gauge on how much workload each active locomotive was able to perform, with a larger number implying that each locomotive did more work.

(5) Car velocity: The average miles per day traveled by loaded and empty cars (active system, foreign and private cars) on company lines. This measure represents the fluidity of cars on the network, calculated by the sum of miles each car travelled divided by the sum of all of the cars' active time, with a higher value indicating a smoother and more fluid operation.

(6) 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.

Operating performance improved in the first quarter of 2020 when compared to the same period in 2019. Train productivity, Through dwell, Car velocity and Through network train speed all improved due to prior year capacity investments and lower volumes on the network. The impact of the illegal blockades negatively impacted GTMs and Locomotive utilization.

Financial results

First quarter of 2020 compared to corresponding period in 2019

Net income for the first quarter of 2020 was $1,011 million, an increase of $225 million, or 29%, and diluted earnings per share increased by 31% to $1.42, when compared to the same period in 2019.

Operating income for the quarter ended March 31, 2020 increased by $135 million, or 13%, to $1,215 million when compared to the same period in 2019.

The operating ratio, defined as operating expenses as a percentage of revenues, was 65.7% in the first quarter of 2020, compared to 69.5% in the first quarter of 2019, a 3.8-point improvement.

Revenues for the first quarter of 2020 of $3,545 million remained flat compared to the same period in 2019. The inclusion of TransX within the domestic market of the intermodal commodity group, freight rate increases, higher volumes of petroleum crude and increased shipments of Canadian grain, were offset by lower volumes across all other commodity groups mostly due to the impacts of the illegal blockades in February 2020 and the COVID-19 pandemic in late March.

Operating expenses for the first quarter of 2020 were $2,330 million compared to $2,464 million for the same period in 2019. The decrease of $134 million, or 5%, was mainly driven by lower labor costs, depreciation expense and fuel expense.

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.

For further details of these non-GAAP measures, including a reconciliation to the most directly comparable GAAP financial measures, refer to the sections 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, 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.

For the three months ended March 31, 2019, the Company's adjusted net income was $848 million, or $1.17 per diluted share, which excludes a depreciation expense of $84 million, or $62 million after-tax ($0.09 per diluted share), related to costs previously capitalized for a Positive Train Control (PTC) back office system, following the deployment of a replacement system.

The following table provides a reconciliation of net income and earnings per share, as reported for the three months ended March 31, 2020 and 2019, to the adjusted performance measures presented herein:

	Three months ended March 31	
In millions, except per share data	**2020**	2019
Net income	**$ 1,011**	$ 786
Adjustments:		
Depreciation expense	**—**	84
Income tax recovery [(1)]	**(141)**	(22)
Adjusted net income	**$ 870**	$ 848
Basic earnings per share	**$ 1.42**	$ 1.08
Impact of adjustments, per share	**(0.20)**	0.09
Adjusted basic earnings per share	**$ 1.22**	$ 1.17
Diluted earnings per share	**$ 1.42**	$ 1.08
Impact of adjustments, per share	**(0.20)**	0.09
Adjusted diluted earnings per share	**$ 1.22**	$ 1.17

(1) The tax effect of adjustments reflects tax law and rate enactments, as well as tax rates in the applicable jurisdiction and the nature of the item for tax purposes.

The following table provides a reconciliation of operating income and operating ratio, as reported for the three months ended March 31, 2020 and 2019, to the adjusted performance measures presented herein:

	Three months ended March 31	
In millions, except percentage	**2020**	2019
Operating income	**$ 1,215**	$ 1,080
Adjustment: Depreciation expense	**—**	84
Adjusted operating income	**$ 1,215**	$ 1,164
Operating ratio	**65.7%**	69.5%
Impact of adjustment	**—**	(2.3)-pts
Adjusted operating ratio	**65.7%**	67.2%

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 $1.34 and $1.33 per US$1.00 for the three months ended March 31, 2020 and 2019, respectively.

On a constant currency basis, the Company's net income for the three months ended March 31, 2020 would have remained the same.

Revenues

In millions, unless otherwise indicated	Three months ended March 31 2020	2019	% Change	% Change at constant currency
Freight revenues	**$ 3,424**	$ 3,413	—%	—%
Other revenues	**121**	131	(8%)	(8%)
Total revenues	**$ 3,545**	$ 3,544	—%	—%
Freight revenues				
Petroleum and chemicals	**$ 791**	$ 735	8%	7%
Metals and minerals	**405**	421	(4%)	(4%)
Forest products	**433**	456	(5%)	(6%)
Coal	**143**	163	(12%)	(12%)
Grain and fertilizers	**610**	577	6%	5%
Intermodal	**849**	850	—%	—%
Automotive	**193**	211	(9%)	(9%)
Total freight revenues	**$ 3,424**	$ 3,413	—%	—%
Revenue ton miles (RTMs) *(millions)*	**58,370**	59,067	(1%)	(1%)
Freight revenue/RTM *(cents)*	**5.87**	5.78	2%	1%
Carloads *(thousands)*	**1,335**	1,418	(6%)	(6%)
Freight revenue/carload *($)*	**2,565**	2,407	7%	6%

Revenues for the first quarter of 2020 of $3,545 million remained flat when compared to the same period in 2019. The inclusion of TransX within the domestic market of the intermodal commodity group, freight rate increases, higher volumes of petroleum crude and increased shipments of Canadian grain, were offset by lower volumes across all other commodity groups mostly due to the impacts of the illegal blockades in February 2020 and the COVID-19 pandemic in late March.

Fuel surcharge revenues decreased by $22 million in the first quarter of 2020 when compared to the same period in 2019, mainly as a result of lower volumes as well as lower applicable fuel surcharge rates.

RTMs, measuring the relative weight and distance of freight transported by the Company, declined by 1% in the first quarter of 2020 when compared to the same period in 2019. Freight revenue per RTM increased by 2% in the first quarter of 2020 when compared to the same period in 2019, mainly due to the inclusion of TransX in the intermodal commodity group and freight rate increases.

Petroleum and chemicals

	Three months ended March 31 2020	2019	% Change	% Change at constant currency
Revenues *(millions)*	**$ 791**	$ 735	8%	7%
RTMs *(millions)*	**13,688**	12,749	7%	7%
Revenue/RTM *(cents)*	**5.78**	5.77	—%	—%
Carloads *(thousands)*	**173**	168	3%	3%

Revenues for this commodity group increased by $56 million, or 8%, in the first quarter of 2020 when compared to the same period in 2019. The increase was mainly due to higher volumes of petroleum crude and freight rate increases, partly offset by lower volumes of natural gas liquids and chemical and plastic products.

Revenue per RTM remained flat in the first quarter of 2020 when compared to the same period in 2019, mainly due to freight rate increases, offset by an increase in the average length of haul.

Metals and minerals

	Three months ended March 31			
	2020	2019	% Change	% Change at constant currency
Revenues *(millions)*	**$ 405**	$ 421	(4%)	(4%)
RTMs *(millions)*	**6,476**	6,570	(1%)	(1%)
Revenue/RTM *(cents)*	**6.25**	6.41	(2%)	(3%)
Carloads *(thousands)*	**241**	235	3%	3%

Revenues for this commodity group decreased by $16 million, or 4%, in the first quarter of 2020 when compared to the same period in 2019. The decrease was mainly due to lower volumes of semi-finished steel products and reduced shipments of frac sand.

Revenue per RTM decreased by 2% in the first quarter of 2020 when compared to the same period in 2019, mainly due to unfavorable changes in traffic mix, partly offset by a decrease in the average length of haul.

Forest products

	Three months ended March 31			
	2020	2019	% Change	% Change at constant currency
Revenues *(millions)*	**$ 433**	$ 456	(5%)	(6%)
RTMs *(millions)*	**6,322**	6,818	(7%)	(7%)
Revenue/RTM *(cents)*	**6.85**	6.69	2%	2%
Carloads *(thousands)*	**88**	96	(8%)	(8%)

Revenues for this commodity group decreased by $23 million, or 5%, in the first quarter of 2020 when compared to the same period in 2019. The decrease was mainly due to lower volumes across a broad range of forest products, partly offset by freight rate increases.

Revenue per RTM increased by 2% in the first quarter of 2020 when compared to the same period in 2019, mainly due to freight rate increases.

Coal

	Three months ended March 31			
	2020	2019	% Change	% Change at constant currency
Revenues *(millions)*	**$ 143**	$ 163	(12%)	(12%)
RTMs *(millions)*	**4,078**	4,294	(5%)	(5%)
Revenue/RTM *(cents)*	**3.51**	3.80	(8%)	(8%)
Carloads *(thousands)*	**77**	80	(4%)	(4%)

Revenues for this commodity group decreased by $20 million, or 12%, in the first quarter of 2020 when compared to the same period in 2019. The decrease was mainly due to lower U.S. thermal coal exports via the Gulf Coast due to competitive market pricing and reduced domestic shipments to U.S. utilities; partly offset by higher Canadian metallurgical and thermal coal exports via west coast ports.

Revenue per RTM decreased by 8% in the first quarter of 2020 when compared to the same period in 2019, mainly due to unfavorable changes in traffic mix.

Grain and fertilizers

	Three months ended March 31				
	2020		2019	% Change	% Change at constant currency
Revenues *(millions)*	**$ 610**	$	577	6%	5%
RTMs *(millions)*	**14,199**		13,867	2%	2%
Revenue/RTM *(cents)*	**4.30**		4.16	3%	3%
Carloads *(thousands)*	**150**		149	1%	1%

Revenues for this commodity group increased by $33 million, or 6%, in the first quarter of 2020 when compared to the same period in 2019. The increase was mainly due to higher Canadian grain volumes and freight rate increases, partly offset by lower export volumes of Canadian wheat and lower volumes of phosphate rock.

Revenue per RTM increased by 3% in the first quarter of 2020 when compared to the same period in 2019, mainly due to freight rate increases.

Intermodal

	Three months ended March 31				
	2020		2019	% Change	% Change at constant currency
Revenues *(millions)*	**$ 849**	$	850	—%	—%
RTMs *(millions)*	**12,762**		13,848	(8%)	(8%)
Revenue/RTM *(cents)*	**6.65**		6.14	8%	8%
Carloads *(thousands)*	**548**		624	(12%)	(12%)

Revenues for this commodity group remained flat , in the first quarter of 2020 when compared to the same period in 2019. The lower international container traffic via the ports of Vancouver and Halifax resulting from the impact of the COVID-19 pandemic and illegal blockades, respectively, were offset by the inclusion of TransX for the full quarter in 2020.

Revenue per RTM increased by 8% in the first quarter of 2020 when compared to the same period in 2019, mainly due to the inclusion of TransX.

Automotive

	Three months ended March 31				
	2020		2019	% Change	% Change at constant currency
Revenues *(millions)*	**$ 193**	$	211	(9%)	(9%)
RTMs *(millions)*	**845**		921	(8%)	(8%)
Revenue/RTM *(cents)*	**22.84**		22.91	—%	(1%)
Carloads *(thousands)*	**58**		66	(12%)	(12%)

Revenues for this commodity group decreased by $18 million, or 9%, in the first quarter of 2020 when compared to the same period in 2019. The decrease was mainly due to lower volumes of domestic finished vehicles and vehicle parts resulting from the illegal blockades and the shutdown of assembly plants and production facilities in the last two weeks of March 2020 due to the COVID-19 pandemic.

Revenue per RTM remained flat in the first quarter of 2020 when compared to the same period in 2019, mainly due to an increase in average length of haul, offset by favorable changes of traffic mix.

Other revenues

	Three months ended March 31			
	2020	2019	% Change	% Change at constant currency
Revenues *(millions)*	**$ 121**	$ 131	(8%)	(8%)

Other revenues decreased by $10 million, or 8%, in the first quarter of 2020 when compared to the same period in 2019. The decrease was mainly due to lower revenues from vessels and automotive logistics; partly offset by higher freight forwarding revenues.

Operating expenses

Operating expenses for the first quarter of 2020 were $2,330 million compared to $2,464 million in the same period of 2019. The decrease of $134 million, or 5%, was mainly driven by lower labor costs, depreciation expense and fuel expense.

	Three months ended March 31			
In millions	**2020**	2019	% Change	% Change at constant currency
Labor and fringe benefits	**$ 743**	$ 798	7%	7%
Purchased services and material	**578**	558	(4%)	(3%)
Fuel	**360**	398	10%	10%
Depreciation and amortization	**392**	440	11%	11%
Equipment rents	**105**	114	8%	9%
Casualty and other	**152**	156	3%	3%
Total operating expenses	**$ 2,330**	$ 2,464	5%	6%

Labor and fringe benefits

Labor and fringe benefits expense decreased by $55 million, or 7%, in the first quarter of 2020 when compared to the same period in 2019. The decrease was primarily driven by lower incentive compensation, average headcount and overtime costs.

Purchased services and material

Purchased services and material expense increased by $20 million, or 4%, in the first quarter of 2020 when compared to the same period in 2019. The increase was mainly due to the inclusion of TransX, partly offset by lower material costs and contracted services.

Fuel

Fuel expense decreased by $38 million, or 10%, in the first quarter of 2020 when compared to the same period in 2019. The decrease was mainly due to productivity gains and lower fuel prices.

Depreciation and amortization

Depreciation and amortization expense decreased by $48 million, or 11%, in the first quarter of 2020 when compared to the same period in 2019. The decrease was mainly due to a 2019 expense of $84 million related to costs previously capitalized for a PTC back office system following the deployment of a replacement system, partly offset by a higher depreciable asset base resulting from increased capital expenditures in recent years.

Equipment rents

Equipment rents expense decreased by $9 million, or 8%, in the first quarter of 2020 when compared to the same period in 2019. The decrease was mainly due to lower locomotive and rail car lease expenses.

Casualty and other

Casualty and other expense decreased by $4 million, or 3%, in the first quarter of 2020 when compared to the same period in 2019. The decrease was mainly due to lower incident costs.

Other income and expenses

Interest expense

Interest expense was $139 million for the three months ended March 31, 2020 compared to $131 million for the same period in 2019. The increase was mainly due to a higher average level of debt; partly offset by a lower average interest rate.

Other components of net periodic benefit income

Other components of net periodic benefit income was $78 million for the three months ended March 31, 2020 compared to $80 million for the same period in 2019.

Other income

Other income was $11 million for the three months ended March 31, 2020 compared to $2 million for the same period in 2019.

Income tax expense

Income tax expense was $154 million for the three months ended March 31, 2020 compared to $245 million for the same period in 2019. 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 existing 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 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 rate for the three months ended March 31, 2020 was 13.2% compared to 23.8% for the same period in 2019. Excluding the aforementioned current income tax recovery, the effective tax rate for the three months ended March 31, 2020 was 25.3%. The increase in the effective tax rate was mainly attributable to the impact of a lower excess tax benefit resulting from the settlement of equity settled awards under the Company's stock-based compensation plans.

Summary of quarterly financial data

	2020 Quarter	2019 Quarters				2018 Quarters		
In millions, except per share data	**First**	Fourth	Third	Second	First	Fourth	Third	Second
Revenues	**$ 3,545**	$ 3,584	$ 3,830	$ 3,959	$ 3,544	$ 3,808	$ 3,688	$ 3,631
Operating income (1)	**$ 1,215**	$ 1,218	$ 1,613	$ 1,682	$ 1,080	$ 1,452	$ 1,492	$ 1,519
Net income (1)	**$ 1,011**	$ 873	$ 1,195	$ 1,362	$ 786	$ 1,143	$ 1,134	$ 1,310
Basic earnings per share	**$ 1.42**	$ 1.22	$ 1.66	$ 1.89	$ 1.08	$ 1.57	$ 1.55	$ 1.78
Diluted earnings per share	**$ 1.42**	$ 1.22	$ 1.66	$ 1.88	$ 1.08	$ 1.56	$ 1.54	$ 1.77
Dividends per share	**$ 0.5750**	$ 0.5375	$ 0.5375	$ 0.5375	$ 0.5375	$ 0.4550	$ 0.4550	$ 0.4550

(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 2019 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, and competitive forces in the transportation marketplace (see the section entitled *Business risks* of the Company's 2019 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 2019 Annual MD&A. There were no significant changes during the first quarter of 2020, except as noted below.

As at March 31, 2020 and December 31, 2019, the Company had Cash and cash equivalents of $488 million and $64 million, respectively; Restricted cash and cash equivalents of $525 million and $524 million, respectively; and a working capital deficit of $1,122 million and $1,457 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.

Available financing sources

Shelf prospectus and registration statement

On February 11, 2020, the Company filed a new shelf prospectus with Canadian securities regulators and a registration statement with the United States Securities and Exchange Commission (SEC), pursuant to which CN 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. This shelf prospectus and registration statement replaced CN's previous shelf prospectus and registration statement that was to expire on March 13, 2020. 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 15, 2019, the Company's revolving credit facility agreement was amended, which extended the term of the credit facility by one year and increased the credit facility from $1.8 billion to $2.0 billion, effective May 5, 2019. The increase in capacity provides the Company with additional financial flexibility. The amended credit facility of $2.0 billion consists of a $1.0 billion tranche maturing on May 5, 2022 and a $1.0 billion tranche maturing on May 5, 2024. The accordion feature, which provides for an additional $500 million of credit under the facility, subject to the consent of individual lenders, remains unchanged. As at March 31, 2020 and December 31, 2019, the Company had outstanding borrowings under this revolving credit facility of $100 million and $nil, respectively, at a weighted-average interest rate of 2.35% and nil, respectively, presented in Current portion of long-term debt on the Consolidated Balance Sheets.

On March 27, 2020, the Company entered into a $250 million one year revolving credit facility agreement. The credit facility is available for working capital and general corporate purposes. As at March 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, 2020.

Non-revolving credit facility

On July 25, 2019, the Company entered into a US$300 million, non-revolving term loan credit facility agreement for financing or refinancing the purchase of equipment, which was available to be drawn upon through March 31, 2020. Term 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 27, 2020, the Company entered into loan supplements to the original agreement for an additional principal amount of US$310 million, which is available to be drawn through March 31, 2021.

The Company borrowed US$300 million ($397 million) on this facility during the three months ended March 31, 2020.

As at March 31, 2020 and December 31, 2019, the Company had outstanding borrowings under this non-revolving term loan facility of US $300 million ($422 million) and $nil, respectively, at a weighted-average interest rate of 2.41% and nil, respectively.

Commercial paper

The Company’s commercial paper programs are backstopped by the Company’s revolving credit facility. As of May 5, 2019, the maximum aggregate principal amount of commercial paper that could be issued increased from $1.8 billion to $2.0 billion, or the US dollar equivalent, on a combined basis. As at March 31, 2020 and December 31, 2019, the Company had total commercial paper borrowings of US$1,218 million ($1,713 million) and US$983 million ($1,277 million), respectively, at a weighted-average interest rate of 1.59% and 1.77%, respectively, presented in Current portion of long-term debt on the Consolidated Balance Sheets.

Accounts receivable securitization program

The Company has an agreement to sell an undivided co-ownership interest in a revolving pool of accounts receivable to unrelated trusts for maximum cash proceeds of $450 million. On February 27, 2020, the Company extended the term of its agreement by two years to February 1, 2023. As at March 31, 2020 and December 31, 2019, the Company had accounts receivable securitization borrowings of $450 million and $200 million, respectively, at a weighted-average interest rate of 1.60% and 1.90%, respectively, secured by and limited to $511 million and $224 million of accounts receivable, respectively, presented in Current portion of long-term debt on the Consolidated Balance Sheet.

Bilateral letter of credit facilities

The Company has a series of committed and uncommitted bilateral letter of credit facility agreements. On March 15, 2019, the Company extended the maturity date of the committed bilateral letter of credit facility agreements to April 28, 2022. As at March 31, 2020, the Company had outstanding letters of credit of $433 million ($424 million as at December 31, 2019) under the committed facilities from a total available amount of $470 million ($459 million as at December 31, 2019) and $154 million ($149 million as at December 31, 2019) under the uncommitted facilities. As at March 31, 2020, included in Restricted cash and cash equivalents was $429 million ($429 million as at December 31, 2019) and $90 million ($90 million as at December 31, 2019) 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 2019 Annual MD&A as well as *Note 9 – Financing activities* to the Company's unaudited Interim Consolidated Financial Statements.

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 2019 Annual MD&A.

Cash flows

In millions	Three months ended March 31 **2020**	2019	Variance
Net cash provided by operating activities	**$ 1,180**	$ 997	$ 183
Net cash used in investing activities	**(607)**	(878)	271
Net cash used in financing activities	**(151)**	(59)	(92)
Effect of foreign exchange fluctuations on cash, cash equivalents, restricted cash, and restricted cash equivalents	**3**	—	3
Net increase in cash, cash equivalents, restricted cash, and restricted cash equivalents	**425**	60	365
Cash, cash equivalents, restricted cash, and restricted cash equivalents, beginning of period	**588**	759	(171)
Cash, cash equivalents, restricted cash, and restricted cash equivalents, end of period	**$ 1,013**	$ 819	$ 194

Operating activities

Net cash provided by operating activities increased by $183 million in the first quarter of 2020 when compared to the same period in 2019, mainly due to higher cash earnings, partly offset by advance consideration received in 2019 related to a long-term rail freight contract.

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.

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. The OSFI proposed revisions to its Instruction guide for the Preparation of Actuarial Reports for defined benefit pension plans. If these proposed revisions become final, they would affect the December 31, 2020 actuarial valuations by reducing the solvency status of the Company's defined benefit pension plans, and may negatively impact the Company's pension funding requirements starting in year 2021. The OSFI has temporarily suspended their consultation in light of the COVID-19 pandemic.

The Company's most recently filed actuarial valuations for funding purposes for its Canadian registered defined benefit pension plans conducted as at December 31, 2018 indicated a funding excess on a going concern basis of approximately $3.3 billion and a funding excess on a solvency basis of approximately $0.5 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, 2019 will be performed in 2020. These actuarial valuations are expected to identify a funding excess on a going concern basis of approximately $3.5 billion, while on a solvency basis a funding excess of approximately $0.6 billion is expected.

Pension contributions for the three months ended March 31, 2020 and 2019 of $68 million and $80 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 2020, the Company now expects to make total cash contributions of approximately $130 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 15 – Pensions and other postretirement benefits* to the Company's 2019 Annual Consolidated Financial Statements.

Income tax refunds and payments

Net income tax refunds for the three months ended March 31, 2020 were $9 million compared to net income tax payments of $242 million for the same period in 2019. The Company does not expect to make any instalment payments in Canada until September 1, 2020 as a result of 2019 instalment overpayments applied to the current period, and deferrals of all required current year instalment payments in Canada until September 1, 2020 as permitted under the various COVID-19 pandemic measures announced by the Canadian authorities. For 2020, the Company's net income tax payments are now expected to be approximately $600 million, and although it reflects the impacts of the CARES Act, it does not include the anticipated refund related to the carryback of U.S. federal net operating losses as it is only expected to be received in early 2021.

Investing activities

Net cash used in investing activities decreased by $271 million in the first quarter of 2020 when compared to the same period in 2019, mainly due to lower property additions and the acquisition of TransX in 2019.

Property additions

	Three months ended March 31	
In millions	**2020**	2019
Track and roadway	**$ 278**	$ 283
Rolling stock	**208**	458
Buildings	**5**	8
Information technology	**69**	80
Other	**43**	89
Gross property additions	**603**	918
Less: Finance leases (1)	**—**	215
Property additions (2)	**$ 603**	$ 703

(1) Includes re-measurement of finance leases.

(2) Includes $45 million associated with the U.S. federal government legislative PTC implementation in the three months ended March 31, 2020 ($63 million in the three months ended March 31, 2019).

Acquisitions

On December 2, 2019, the Company acquired H&R for a total purchase price of $105 million, of which $95 million was paid on the closing date, $8 million related to funds withheld for the indemnification of claims to be paid within twenty months of the acquisition date, plus $2 million cash paid since the closing to reflect the settlement of working capital.

The preliminary allocation of the purchase price to the assets acquired and liabilities assumed was performed on the basis of their respective fair values. The Company used a third party to assist in establishing the fair values of the assets acquired and liabilities assumed which resulted in the recognition of identifiable net assets of $93 million and goodwill of $12 million. The goodwill acquired through the business combination is mainly attributable to the premium of an established business operation. The Company's purchase price allocation is preliminary and subject to change over the measurement period, which may be up to one year from the acquisition date.

The Company's Consolidated Balance Sheet includes the assets and liabilities of H&R as of December 2, 2019, the acquisition date. Since the acquisition date, H&R's results of operations have been included in the Company's results of operations. The Company has not provided pro forma information relating to the pre-acquisition period as it was not material.

On March 20, 2019, the Company acquired TransX. The total purchase price of $192 million included an initial cash payment of $170 million, additional consideration of $25 million paid on August 27, 2019 upon achievement of targets, less an adjustment of $3 million in the fourth quarter of 2019 to reflect the settlement of working capital.

The allocation of the purchase price to the assets acquired and liabilities assumed was performed on the basis of their respective fair values. The Company used a third party to assist in establishing the fair values of the assets acquired and liabilities assumed which resulted in the recognition of identifiable net assets of $134 million and goodwill of $58 million. The goodwill acquired through the business combination is mainly attributable to the premium of an established business operation. The Company's purchase price allocation is now final and no longer subject to change as the measurement period permitted to be up to one year from the acquisition date is closed.

The Company's Consolidated Balance Sheet includes the assets and liabilities of TransX as of March 20, 2019, the acquisition date. Since the acquisition date, TransX's results of operations have been included in the Company's results of operations. The Company has not provided pro forma information relating to the pre-acquisition period as it was not material.

See *Note 3 - Business combinations* to the Company's unaudited Interim Consolidated Financial Statements for additional information.

2020 Capital expenditure program

In light of anticipated lower volumes for the year, the 2020 capital expenditure program has been reduced by $0.2 billion, partly offset by approximately $0.1 billion due to the negative impact of foreign exchange, resulting in a net $0.1 billion reduction from $3.0 billion to $2.9 billion. Additional details of the Company's 2020 capital program are provided in the section entitled *Liquidity and capital resources – Cash flows* of the Company's 2019 Annual MD&A.

Financing activities

Net cash used in financing activities increased by $92 million in the first quarter of 2020 when compared to the same period in 2019, primarily driven by higher net repayment of debt; partly offset by higher net issuance of commercial paper and lower repurchases of common shares.

Debt financing activities

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 the accounts receivable securitization program of $450 million;
- Repayment of accounts receivable securitization borrowings of $200 million;
- Proceeds from borrowings under revolving credit facility agreement of $100 million; and
- Repayment of finance leases of $9 million.

Debt financing activities in the first quarter of 2019 included the following:

- On February 8, 2019, issuance of $350 million 3.00% Notes due 2029 and $450 million 3.60% Notes due 2049 in the Canadian capital markets, which resulted in total net proceeds of $790 million; and
- Net repayment of commercial paper of $14 million.

Additional information relating to the Company's outstanding debt securities is provided in *Note 13 – Debt* to the Company's 2019 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. Under its current NCIB, the Company may repurchase up to 16.0 million common shares between February 1, 2020 and January 31, 2021. As at March 31, 2020, the Company had repurchased 2.0 million common shares for $226 million under its current NCIB.

The Company repurchased 14.1 million common shares under its previous NCIB effective between February 1, 2019 and January 31, 2020, which allowed for the repurchase of up to 22.0 million common shares.

As of March 31, 2020, in light of the uncertain and unprecedented environment, the Company had paused share repurchases.

The following table provides the information related to the share repurchases for the three months ended March 31, 2020 and 2019:

	Three months ended March 31	
In millions, except per share data	**2020**	2019
Number of common shares repurchased	**3.3**	3.9
Weighted-average price per share	**$ 116.97**	$ 111.28
Amount of repurchase	**$ 379**	$ 432

Share Trusts

The Company's Employee Benefit Plan Trusts ("Share Trusts") purchase CN's common shares on the open market, which are used to deliver common shares under the Share Units Plan and, beginning in 2019, 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 16 – Share capital* to the Company's 2019 Annual Consolidated Financial Statements.

Dividends paid

The Company paid quarterly dividends of $0.5750 per share amounting to $409 million in the first quarter of 2020, compared to $389 million, at the quarterly rate of $0.5375 per share for the same period in 2019.

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, 2020:

In millions	**Total**	2020	2021	2022	2023	2024	2025 & thereafter
Debt obligations (1)	**$ 15,155**	$ 2,283	$ 823	$ 364	$ 224	$ 505	$ 10,956
Interest on debt obligations	**10,377**	365	543	524	507	499	7,939
Finance lease obligations (2)	**135**	54	77	1	—	—	3
Operating lease obligations (3)	**550**	108	115	78	54	38	157
Purchase obligations (4)	**1,427**	920	203	129	90	43	42
Other long-term liabilities (5)	**747**	90	55	43	42	31	486
Total contractual obligations	**$ 28,391**	**$ 3,820**	**$ 1,816**	**$ 1,139**	**$ 917**	**$ 1,116**	**$ 19,583**

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

(2) Includes $3 million of imputed interest.

(3) Includes $70 million related to renewal options reasonably certain to be exercised and $57 million of imputed interest.

(4) Includes fixed and variable commitments for rail, information technology services and licenses, 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.

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 as reported for the three months ended March 31, 2020 and 2019, to free cash flow:

	Three months ended March 31	
In millions	**2020**	2019
Net cash provided by operating activities	**$ 1,180**	$ 997
Net cash used in investing activities	**(607)**	(878)
Net cash provided before financing activities	**573**	119
Adjustment: Acquisition, net of cash acquired (1)	**—**	167
Free cash flow	**$ 573**	$ 286

(1) Relates to the acquisition of TransX. See the section of this MD&A entitled Liquidity and capital resources - Investing activities for additional information.

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 to the adjusted measures presented below, which have been used to calculate the adjusted debt-to-adjusted EBITDA multiple:

In millions, unless otherwise indicated — *As at and for the twelve months ended March 31,*	**2020**	2019
Debt	**$ 15,287**	$ 13,433
Adjustments:		
Operating lease liabilities, including current portion	**493**	567
Pension plans in deficiency	**527**	475
Adjusted debt	**$ 16,307**	$ 14,475
Net income	**$ 4,441**	$ 4,373
Interest expense	**546**	498
Income tax expense	**1,122**	1,349
Depreciation and amortization	**1,514**	1,446
EBITDA	**7,623**	7,666
Adjustments:		
Other income	**(62)**	(372)
Other components of net periodic benefit income	**(319)**	(305)
Operating lease cost	**166**	208
Adjusted EBITDA	**$ 7,408**	$ 7,197
Adjusted debt-to-adjusted EBITDA multiple *(times)*	**2.20**	2.01

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.

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, 2020, 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 27, 2020, the Company had 709.8 million common shares and 4.1 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 2019 Annual MD&A.

Derivative financial instruments

As at March 31, 2020, the Company had outstanding foreign exchange forward contracts with a notional value of US$1,218 million (US$1,088 million as at December 31, 2019). For the three months ended March 31, 2020 and 2019, the Company recorded a gain of $126 million and a loss of $44 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, 2020, the fair value of outstanding foreign exchange forward contracts included in Other current assets and Accounts payable and other was $83 million and $6 million, respectively ($nil and $24 million, respectively, as at December 31, 2019).

Fair value of financial instruments

As at March 31, 2020, the Company's debt, excluding finance leases, had a carrying amount of $15,155 million ($13,662 million as at December 31, 2019) and a fair value of $17,198 million ($15,667 million as at December 31, 2019).

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

Recent accounting pronouncements

The following recent Accounting Standards Update (ASU) issued by the Financial Accounting Standards Board (FASB) was adopted by the Company during the first quarter of 2020:

ASU 2016-13 Financial instruments - Credit losses (Topic 326): Measurement of credit losses on financial instruments
The ASU requires financial assets measured at amortized cost to be presented at the net amount expected to be collected. The new standard replaces the current incurred loss impairment methodology with one that reflects expected credit losses.

The Company adopted this standard in the first quarter of 2020 with an effective date of January 1, 2020. The adoption of this standard did not have an impact on the Company's Consolidated Financial Statements, other than for the new disclosure requirements.

The accounting policy for accounts receivable has been updated as follows:

Accounting policy for accounts receivable
Accounts receivable are recorded at cost net of billing adjustments and an allowance for credit losses. The allowance for credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectibility of the reported amount. When a receivable is deemed uncollectible, it is written off against the allowance for credit losses. Subsequent recoveries of amounts previously written off are credited to bad debt expense in Casualty and other in the Consolidated Statements of Income.

The following recent ASU issued by FASB came into effect in the first quarter of 2020 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
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 provisions of the ASU are effective starting on March 12, 2020; however, they will only be available until December 31, 2022, when the reference rate replacement activity is expected to have completed. The Company may apply the provisions of the ASU as of the beginning of a reporting period when the elections are made, or prospectively from the date within an interim period that includes or is subsequent to March 12, 2020. The Company currently has outstanding loans and finance lease obligations referencing LIBOR totaling approximately US$400 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, 2020 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 2019 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 2020.

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 2019 Annual MD&A for a detailed description of such key areas of business risks and uncertainties with respect to: 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.

The following are material changes to the risks described in the Company's 2019 Annual MD&A, as well as an update on labor workforce and regulatory matters.

Pandemic risk & economic downturn

Severe disruptions in regional economies and the world economy can be caused by the pandemic outbreak of a contagious illness, such as the current COVID-19 pandemic. The transmission of COVID-19 and efforts to contain its spread have recently resulted in international, national and local border closings, travel restrictions, significant disruptions to business operations, supply chains and customer activity and demand, service cancellations, reductions and other changes, significant challenges in healthcare service preparation and delivery, and quarantines, as well as considerable general concern and uncertainty, all of which have negatively affected the economic environment and may in the future have further and larger impacts. At this stage, it is not possible to predict what additional measures and restrictions will be imposed by governmental authorities and the period in time during which those measures and restrictions will apply. Any additional border closings and economic or supply chain disruptions could materially affect our financial results and operations. The COVID-19 pandemic could also significantly impact freight demand and commodity prices in connection with an ensuing economic downturn, supply shortages, trade disruption, temporary staff shortages, temporary closures of facilities in geographic locations more importantly impacted by the outbreak. We cannot presently predict the scope and severity of such potential disruptions but their impact on the Company's financial results and operations could be material.

Trade restrictions

On March 13, 2020, Canada ratified the United States-Mexico-Canada Agreement (USMCA), the new trade agreement replaces the North American Free Trade Agreement (NAFTA). All three countries have now ratified the agreement which is scheduled to come into force later this year.

There can be no assurance that the potential outcome of other ongoing trade actions taken by governments and agencies globally will not materially adversely affect the volume of rail shipments and/or revenues from commodities carried by the Company, and thus materially and negatively impact earnings and/or cash flow.

Transportation network disruptions

Due to the integrated nature of the North American freight transportation infrastructure, the Company's operations may be negatively affected by service disruptions of its own network, including illegal blockades, as well as of other transportation links such as ports and other railroads which interchange with the Company. A significant prolonged service disruption of CN's network or one or more of these entities could have an adverse effect on the Company's results of operations, financial position or liquidity. Furthermore, deterioration in the cooperative relationships with the Company's connecting carriers could directly affect the Company's operations.

Labor workforce

As at March 31, 2020, CN employed a total of 17,250 employees in Canada, of which 12,197, or 71%, were unionized employees, and 6,725 employees in the U.S., of which 5,597, or 83%, were unionized employees.

Regulation

In order to facilitate the continued movement of goods during the COVID-19 pandemic, regulatory agencies in the U.S. and Canada have issued waivers or exemptions to railway companies providing relief from the strict application of some regulations. This relief was provided in anticipation of workforce shortages and other constraints associated with the COVID-19 pandemic that would prevent railways from complying with requirements in a manner consistent with existing provisions. The regulatory agencies have made clear that this relief can only be used when the circumstances do not allow railways to comply and impose on railways requirements to document the circumstances when the relief is used.

Economic regulation - U.S.

The Passenger Rail Investment and Improvement Act of 2008 (PRIIA) required Amtrak and the Federal Railroad Administration (FRA) of joint authority to 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 March 31, 2020, the FRA proposed metrics for measuring performance. FRA will hold a public hearing by way of conference call on April 30, 2020. Written comments are due on June 1, 2020. As part of PRIIA, U.S. Congress authorized the STB to investigate any railroad over whose track Amtrak operates that fails to meet heightened performance standards preference to Amtrak, the STB is authorized to assess damages against the host railroad.

Safety regulation - Canada

On February 7, 2020, the Minister issued an order restricting to speed of trains carrying dangerous goods. On February 16, 2020, the Minister revised the order to 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. The revised order enabled the Company to recover more efficiently from the illegal blockades. The Minister has issued a new Ministerial Order taking effect on April 1, 2020 to replace the order issued on February 16, 2020. This new order applies to trains moving crude oil or liquefied petroleum gas by establishing speed restrictions for non-winter and winter months.

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. On April 10, 2020, the Association of American Railroads sought reconsideration from FRA on certain aspects of the final rule.

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, 2020, have concluded that the Company's disclosure controls and procedures were effective.

During the first quarter ended March 31, 2020, 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.