

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. These items may include, but are not limited to, restructuring charges, advisory fees related to shareholder matters, losses and recoveries from assets held for sale, gains and losses on asset disposals, transaction-related costs and financing fees, merger termination fees, the effect of tax law changes and rate enactments and certain items outside the control of management. 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 and nine months ended September 30, 2021, the Company's adjusted net income was \$1,079 million, or \$1.52 per diluted share, and \$3,009 million, or \$4.23 per diluted share, respectively. The adjusted figures exclude:

- employee termination benefits and severance costs related to a workforce reduction program of \$39 million, or \$29 million after-tax (\$0.04 per diluted share) recorded in the third quarter in Labor and fringe benefits within the Consolidated Statements of Income;
- advisory fees related to shareholder matters of \$7 million, or \$5 million after-tax (\$0.01 per diluted share) recorded in the third quarter in Casualty and other within the Consolidated Statements of Income;
- the recovery of \$137 million, or \$102 million after-tax (\$0.14 per diluted share) recorded in the first quarter related to the loss on assets held for sale in the second quarter of 2020, to reflect an agreement for the sale of on-going rail operations, certain non-core rail lines in Wisconsin, Michigan and Ontario to a short line operator;
- transaction-related costs, consisting of an advance to Kansas City Southern ("KCS") and a related refund, net of transaction costs, of \$84 million, or \$70 million after-tax (\$0.10 per diluted share), recorded in the third quarter resulting from the terminated CN Merger Agreement with KCS;
- amortization of bridge financing and other fees of \$65 million, or \$60 million after-tax (\$0.08 per diluted share) recorded in the third quarter and \$32 million, or \$24 million after-tax (\$0.03 per diluted share) recorded in the second quarter, resulting from the KCS transaction, recorded in Interest expense within the Consolidated Statements of Income; and
- merger termination fee paid by KCS to CN of \$886 million, or \$770 million after-tax (\$1.08 per diluted share or \$1.09 per basic share), recorded in the third quarter resulting from KCS' notice of termination of the CN Merger Agreement with KCS.

For the nine months ended September 30, 2020, the Company's adjusted net income was \$2,763 million, or \$3.87 per diluted share, which excludes a loss of \$486 million, or \$363 million after-tax (\$0.51 per diluted share) in the second quarter, resulting from the Company's decision to market for sale for on-going rail operations, certain non-core lines in Wisconsin, Michigan and Ontario, and a current income tax recovery of \$141 million (\$0.20 per diluted share) in the first quarter 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.

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The following table provides a reconciliation of net income and earnings per share in accordance with GAAP, as reported for the three and nine months ended September 30, 2021 and 2020, to the non-GAAP adjusted performance measures presented herein:

<i>In millions, except per share data</i>	Three months ended September 30		Nine months ended September 30	
	2021	2020	2021	2020
Net income	\$ 1,685	\$ 985	\$ 3,693	\$ 2,541
<i>Adjustments:</i>				
Workforce reduction program	39	—	39	—
Advisory fees related to shareholder matters	7	—	7	—
Loss (recovery) on assets held for sale	—	—	(137)	486
Transaction-related costs	84	—	84	—
Amortization of bridge financing and other fees	65	—	97	—
Merger termination fee	(886)	—	(886)	—
Income tax expense (recovery) ⁽¹⁾	85	—	112	(264)
Adjusted net income	\$ 1,079	\$ 985	\$ 3,009	\$ 2,763
Basic earnings per share	\$ 2.38	\$ 1.39	\$ 5.21	\$ 3.57
<i>Impact of adjustments, per share</i>	(0.86)	—	(0.97)	0.31
Adjusted basic earnings per share	\$ 1.52	\$ 1.39	\$ 4.24	\$ 3.88
Diluted earnings per share	\$ 2.37	\$ 1.38	\$ 5.19	\$ 3.56
<i>Impact of adjustments, per share</i>	(0.85)	—	(0.96)	0.31
Adjusted diluted earnings per share	\$ 1.52	\$ 1.38	\$ 4.23	\$ 3.87

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

The following table provides a reconciliation of operating income and operating ratio in accordance with GAAP, as reported for the three and nine months ended September 30, 2021 and 2020, to the non-GAAP adjusted performance measures presented herein:

<i>In millions, except percentage</i>	Three months ended September 30		Nine months ended September 30	
	2021	2020	2021	2020
Operating income	\$ 1,341	\$ 1,366	\$ 4,050	\$ 3,366
<i>Operating expense adjustments:</i>				
Workforce reduction program	39	—	39	—
Advisory fees related to shareholder matters	7	—	7	—
Loss (recovery) on assets held for sale	—	—	(137)	486
Transaction-related costs	84	—	84	—
Adjusted operating income	\$ 1,471	\$ 1,366	\$ 4,043	\$ 3,852
Operating ratio ⁽¹⁾	62.7%	59.9%	62.2%	66.9%
<i>Impact of adjustments</i>	(3.7)-pts	—	0.1-pts	(4.8)-pts
Adjusted operating ratio	59.0%	59.9%	62.3%	62.1%

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

Constant currency

Financial results at constant currency allow results to be viewed without the impact of fluctuations in foreign currency exchange rates, thereby facilitating period-to-period comparisons in the analysis of trends in business performance. Measures at constant currency are considered non-GAAP measures and do not have any standardized meaning prescribed by GAAP and therefore, may not be comparable to similar measures presented by other companies. Financial results at constant currency are obtained by translating the current period results denominated in US dollars at the foreign exchange rates of the comparable period in the prior year. The average foreign exchange rates were \$1.26 and \$1.25 per US\$1.00 for the three and nine months ended September 30, 2021, respectively, and \$1.33 and \$1.35 per US\$1.00 for the three and nine months ended September 30, 2020, respectively.

On a constant currency basis, the Company's net income for the three and nine months ended September 30, 2021 would have been higher by \$29 million (\$0.04 per diluted share) and \$139 million (\$0.20 per diluted share), respectively.

Non-GAAP Measures – unaudited

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 provided by (used in) investing activities, adjusted for the impact of business acquisitions and merger transaction-related payments and cash receipts related to the KCS transaction. Free cash flow does not have any standardized meaning prescribed by GAAP and therefore, may not be comparable to similar measures presented by other companies.

The following table provides a reconciliation of net cash provided by operating activities in accordance with GAAP, as reported for the three and nine months ended September 30, 2021 and 2020, to the non-GAAP free cash flow presented herein:

<i>In millions</i>	Three months ended September 30		Nine months ended September 30	
	2021	2020	2021	2020
Net cash provided by operating activities	\$ 2,458	\$ 1,220	\$ 4,885	\$ 4,157
Net cash provided by (used in) investing activities	42	(722)	(2,013)	(2,078)
<i>Net cash provided before financing activities</i>	2,500	498	2,872	2,079
<i>Adjustments:</i>				
Transaction-related costs ⁽¹⁾	26	—	89	—
Advance for acquisition ⁽²⁾	—	—	845	—
Refund of advance for acquisition	(886)	—	(886)	—
Merger termination fee	(886)	—	(886)	—
Acquisition, net of cash acquired ⁽³⁾	—	8	—	8
<i>Total adjustments</i>	(1,746)	8	(838)	8
<i>Free cash flow</i>	\$ 754	\$ 506	\$ 2,034	\$ 2,087

(1) Relates to Transaction-related costs of \$125 million, of which \$63 million was paid in the second quarter and \$26 million was paid in the third quarter. As at September 30, 2021, \$36 million remained to be paid. See Note 3 - Acquisition to CN's unaudited Interim Consolidated Financial Statements for additional information.

(2) Relates to the advance paid to KCS of US\$700 million (\$845 million). See Note 3 - Acquisition to CN's unaudited Interim Consolidated Financial Statements for additional information.

(3) Relates to the acquisition of H&R Transport Limited ("H&R"). See Note 3 - Business combinations to the Company's 2020 Annual Consolidated Financial Statements for additional information.

Non-GAAP Measures – unaudited

Adjusted debt-to-adjusted EBITDA multiple

Management believes that the adjusted debt-to-adjusted EBITDA multiple is a useful credit measure because it reflects the Company's ability to service its debt and other long-term obligations. The Company calculates the adjusted debt-to-adjusted EBITDA multiple as adjusted debt divided by adjusted EBITDA. Adjusted debt is defined as Long-term debt and Current portion of long-term debt as reported on the Company's Consolidated Balance Sheets adjusted for operating lease liabilities, including current portion and pension plans in deficiency recognized on the Company's Consolidated Balance Sheets. Adjusted EBITDA excludes non-GAAP adjustments that impact Operating income, as well as the Merger termination fee, Other income, Other components of net periodic benefit income and Operating lease costs. These measures do not have any standardized meaning prescribed by GAAP and therefore, may not be comparable to similar measures presented by other companies.

The following table provides a reconciliation of debt and net income in accordance with GAAP, reported as at and for the twelve months ended September 30, 2021 and 2020, to the adjusted measures presented herein, which have been used to calculate the non-GAAP adjusted debt-to-adjusted EBITDA multiple:

<i>In millions, unless otherwise indicated</i>	<i>As at and for the twelve months ended September 30,</i>		2021	2020
Debt		\$	13,556	\$ 13,786
<i>Adjustments:</i>				
Operating lease liabilities, including current portion			430	434
Pension plans in deficiency			545	521
Adjusted debt		\$	14,531	\$ 14,741
Net income		\$	4,714	\$ 3,414
Interest expense			619	556
Income tax expense			1,402	936
Depreciation and amortization			1,617	1,574
EBITDA			8,352	6,480
<i>Adjustments:</i>				
Workforce reduction program ⁽¹⁾			39	—
Advisory fees related to shareholder matters ⁽²⁾			7	—
Loss (recovery) on assets held for sale			(137)	486
Transaction-related costs			84	—
Merger termination fee			(886)	—
Other income			(22)	(8)
Other components of net periodic benefit income			(366)	(314)
Operating lease cost			130	152
Adjusted EBITDA		\$	7,201	\$ 6,796
Adjusted debt-to-adjusted EBITDA multiple (times)			2.02	2.17

(1) Relates to employee termination benefits and severance costs related to a workforce reduction program, recorded in Labor and fringe benefits within the Consolidated Statements of Income.

(2) Relates to advisory fees related to shareholder matters recorded in Casualty and other within the Consolidated Statements of Income.