

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 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

Adjusted net income, adjusted earnings per share, adjusted operating income, adjusted operating expenses and adjusted operating ratio are non-GAAP measures that are used to set performance goals and to measure CN's performance. Management believes that these adjusted performance measures provide additional insight to management and investors into the Company's operations and underlying business trends as well as facilitate period-to-period comparisons, as they exclude certain significant items that are not reflective of CN's underlying business operations and could distort the analysis of trends in business performance. These items may include:

- i. operating expense adjustments: workforce reduction program, depreciation expense on the deployment of replacement system, advisory fees related to shareholder matters, losses and recoveries from assets held for sale, business acquisition-related costs;
- ii. non-operating expense adjustments: business acquisition-related financing fees, merger termination income, gains and losses on disposal of property; and
- iii. the effect of tax law changes and rate enactments.

These non-GAAP 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, 2022, the Company's adjusted net income was \$925 million, or \$1.32 per diluted share, which excludes advisory fees related to shareholder matters of \$10 million, or \$7 million after-tax (\$0.01 per diluted share) recorded in Casualty and other within the Consolidated Statements of Income.

For the three months ended March 31, 2021, the Company's adjusted net income was \$874 million, or \$1.23 per diluted share, which excludes the recovery of \$137 million, or \$102 million after-tax (\$0.14 per diluted share) 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.

Adjusted net income is defined as Net income in accordance with GAAP adjusted for certain significant items. Adjusted diluted earnings per share is defined as adjusted net income divided by the weighted-average diluted shares outstanding. The following table provides a reconciliation of Net income and Earnings per share in accordance with GAAP, as reported for the three months ended March 31, 2022 and 2021, to the non-GAAP adjusted performance measures presented herein:

<i>In millions, except per share data</i>	Three months ended March 31	
	2022	2021
Net income ⁽¹⁾	\$ 918	\$ 976
<i>Adjustments:</i>		
<i>Operating expense adjustments:</i>		
Advisory fees related to shareholder matters	10	–
Recovery of loss on assets held for sale	–	(137)
<i>Tax adjustments:</i>		
Tax effect of adjustments ⁽²⁾	(3)	35
<i>Total adjustments</i>	7	(102)
<i>Adjusted net income ⁽¹⁾</i>	\$ 925	\$ 874
Diluted earnings per share	\$ 1.31	\$ 1.37
<i>Impact of adjustments, per share</i>	0.01	(0.14)
<i>Adjusted diluted earnings per share</i>	\$ 1.32	\$ 1.23

(1) In the first quarter of 2022, the Company changed its method of calculating market-related values of pension assets for its defined benefit plans using a retrospective approach. Comparative figures have been adjusted to conform to the change in methodology. See Note 2 – Change in accounting policy to CN's unaudited Interim Consolidated Financial Statements for additional information.

(2) The tax impact of adjustments is based on the nature of the item for tax purposes and related tax rates in the applicable jurisdiction.

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Adjusted operating income is defined as Operating income in accordance with GAAP adjusted for certain significant operating expense items. Adjusted operating expenses is defined as Operating expenses in accordance with GAAP adjusted for certain significant operating expense items. Adjusted operating ratio is defined as adjusted operating expenses as a percentage of revenues. The following table provides a reconciliation of Operating income, Operating expenses and operating ratio, as reported for the three months ended March 31, 2022 and 2021, to the non-GAAP adjusted performance measures presented herein:

<i>In millions, except percentages</i>	Three months ended March 31	
	2022	2021
Operating income	\$ 1,227	\$ 1,327
<i>Operating expense adjustments:</i>		
Advisory fees related to shareholder matters	10	–
Recovery of loss on assets held for sale	–	(137)
<i>Total operating expense adjustments</i>	10	(137)
<i>Adjusted operating income</i>	\$ 1,237	\$ 1,190
Operating expenses	\$ 2,481	\$ 2,208
<i>Total operating expense adjustments</i>	(10)	137
<i>Adjusted operating expenses</i>	\$ 2,471	\$ 2,345
Operating ratio	66.9 %	62.5 %
<i>Impact of adjustments</i>	(0.3)%	3.8 %
<i>Adjusted operating ratio</i>	66.6 %	66.3 %

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 weighted average foreign exchange rates used to translate transactions denominated in US dollars of the comparable period of the prior year.

The average foreign exchange rate was \$1.27 per US\$1.00 for both the three months ended March 31, 2022 and March 31, 2021.

On a constant currency basis, the Company's Revenues, Total operating expenses, Operating income, Income before income taxes, Income tax expense, Net income and Diluted earnings per share for the three months ended March 31, 2022 would have remained unchanged.

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Free cash flow

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 (i) business acquisitions and (ii) merger transaction-related payments, cash receipts and cash income taxes, which are items that are not indicative of operating trends. Free cash flow does not have any standardized meaning prescribed by GAAP and therefore, may not be comparable to similar measures presented by other companies.

The following table provides a reconciliation of Net cash provided by operating activities in accordance with GAAP, as reported for the three months ended March 31, 2022 and 2021, to the non-GAAP free cash flow presented herein:

<i>In millions</i>	Three months ended March 31	
	2022	2021
Net cash provided by operating activities	\$ 570	\$ 952
Net cash used in investing activities	(101)	(413)
Net cash provided before financing activities	469	539
Adjustment: Cash income taxes for merger transaction-related payments and cash receipts ⁽¹⁾	102	—
Free cash flow	\$ 571	\$ 539

(1) Relates to income tax payments of \$102 million for KCS merger transaction-related payments and cash receipts. See Note 3 – Acquisitions, Terminated CN KCS merger agreement, to the Company's 2021 Annual Consolidated Financial Statements and the section entitled Adjusted performance measures to the Company's 2021 Annual MD&A filed on February 1, 2022 which 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 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 the last twelve months of adjusted EBITDA. Adjusted debt is defined as the sum of Long-term debt and Current portion of long-term debt as reported on the Company's Consolidated Balance Sheets as well as Operating lease liabilities, including current portion and pension plans in deficiency recognized on the Company's Consolidated Balance Sheets due to the debt-like nature of their contractual and financial obligations. Adjusted EBITDA is calculated as Net income excluding Interest expense, Income tax expense, Depreciation and amortization, operating lease cost, Other components of net periodic benefit income, Other income (loss), and other significant items that are not reflective of CN's underlying business operations and which could distort the analysis of trends in business performance. Adjusted debt and adjusted EBITDA are non-GAAP measures used to compute the Adjusted debt-to-adjusted EBITDA multiple. These measures do not have any standardized meaning prescribed by GAAP and therefore, may not be comparable to similar measures presented by other companies.

The following table provides a reconciliation of debt and Net income in accordance with GAAP, reported as at and for the twelve months ended March 31, 2022 and 2021, to the adjusted measures presented herein, which have been used to calculate the non-GAAP adjusted debt-to-adjusted EBITDA multiple:

<i>In millions, unless otherwise indicated</i>	<i>As at and for the twelve months ended March 31,</i>		2022	2021
Debt	\$	13,383	\$	12,928
<i>Adjustments:</i>				
Operating lease liabilities, including current portion ⁽¹⁾		430		387
Pension plans in deficiency ⁽²⁾		443		548
<i>Adjusted debt</i>	\$	14,256	\$	13,863
Net income ⁽³⁾	\$	4,841	\$	3,514
Interest expense		606		545
Income tax expense ⁽³⁾		1,419		1,142
Depreciation and amortization		1,614		1,601
Operating lease cost ⁽⁴⁾		134		138
Other components of net periodic benefit income ⁽³⁾		(433)		(319)
Other income (loss)		(31)		7
<i>Adjustments:</i>				
Workforce reduction program ⁽⁵⁾		39		—
Advisory fees related to shareholder matters ⁽⁶⁾		30		—
Loss on assets held for sale ⁽⁷⁾		—		349
Transaction-related costs ⁽⁸⁾		84		—
Merger termination fee ⁽⁹⁾		(886)		—
<i>Adjusted EBITDA</i>	\$	7,417	\$	6,977
<i>Adjusted debt-to-adjusted EBITDA multiple (times)</i>		1.92		1.99

(1) Represents the present value of operating lease payments.

(2) Represents the total funded deficit of all defined benefit pension plans with a projected benefit obligation in excess of plan assets.

(3) In the first quarter of 2022, the Company changed its method of calculating market-related values of pension assets for its defined benefit plans using a retrospective approach. Comparative figures have been adjusted to conform to the change in methodology. See Note 2 – Change in accounting policy to CN's unaudited Interim Consolidated Financial Statements for additional information.

(4) Represents the operating lease costs recorded in Purchased services and material and Equipment rents within the Consolidated Statements of Income.

(5) 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.

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

(7) Relates to the recovery of \$137 million of the \$486 million loss on assets held for sale recorded in the second quarter of 2020, resulting from the Company entering into an agreement for the sale of non-core lines. See Note 5 – Assets held for sale to the Company's unaudited Interim Consolidated Financial Statements for further information.

(8) Relates to transaction costs incurred as a result of the terminated CN Merger Agreement of \$84 million, consisting of \$125 million of transaction-related costs, partially offset by \$41 million of income generated as a result of the applicable foreign exchange rates prevailing at the time of payment and related receipt of the US\$700 million advance to KCS. See Note 3 - Acquisitions, Terminated CN KCS merger agreement, to the Company's 2021 Annual Consolidated Financial Statements filed on February 1, 2022 which 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, for additional information.

(9) Relates to the termination fee resulting from KCS terminating the CN Merger Agreement and entering into a merger agreement with CP. See Note 3 - Acquisitions, Terminated CN KCS merger agreement, to the Company's 2021 Annual Consolidated Financial Statements filed on February 1, 2022 which 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, for additional information.